

Financial Accountant

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March/April 2015

HELPING HANDS

IS YOUR BUSINESS
READY FOR ITS
FIRST EMPLOYEE?



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EMPLOYMENT ISSUES

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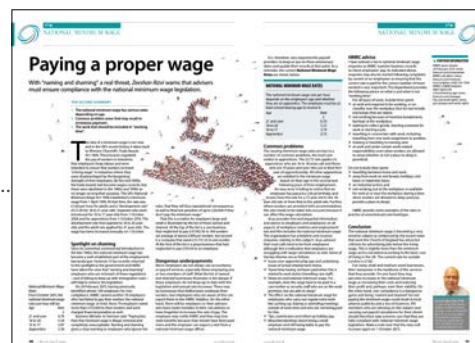
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COVER STORY



IFA Notice Board

Cabinet Office to recognise full IFA listing under the Charities Act 2011

Welcome news for the IFA and its members!

Following the IFA's recent submission to the Cabinet Office in November 2014, full members of the IFA (Associate and Fellow) are now eligible to undertake independent examinations for charities in England and Wales with income above £250,000 under section 145 of the Charities Act 2011.

Have your say!

Share your opinion, challenges and solutions to help you and your peers!

Search "**Institute of Financial Accountants Official Group**" on LinkedIn to join the discussion today!

Voice of the SME

An opinionated editorial newsletter on topical current affairs and their impacts on micro, small and medium businesses.

Sign up to receive our monthly newsletter by emailing marketing@ifa.org.uk and quoting "**be my voice**".

IFA and FTA CPD

With mandatory continual professional development (CPD) requirements for all members having commenced from 1 Jan 2015, staying on top of your CPD is essential.

Visit www.industryeventsonline.com to find and compare hundreds of finance events that fit your personal requirements.

Member Benefits

Do you take full advantage of your IFA membership benefits?

The IFA currently offer 20+ membership benefits, ranging from legal document templates to tax intelligence, all tailored to support both IFA and FTA members in practice and business across the SME sector.

www.ifa.org.uk/members/existing-members/membership-benefits

Change is in the air

Spring is coming and the new season brings exciting times for the IFA. Plans are well advanced to move to our new premises in central London, just by Euston station, by the end of April. The IFA as a whole will benefit from operating out of modern, fit for purpose offices that provide a better working environment for our staff. The offices will enable considerable efficiencies and improvements to be made to the way we do things. Please see the news section of this edition for the full address details – all being well, we will be fully operational in our new home by Thursday, 30 April. It will, of course, be sad to say goodbye to Burford House, which has been our base for the last 30 years, but the move is very much the right thing to do for the institute as a whole and will help us deliver better service to members.

There has been very good news on the recognition front. From 31 March 2015, IFA members will be entitled to act as independent examiners of charity accounts up to the revised threshold of £1 million.

We have been working with the Cabinet Office for some time to secure the inclusion of the IFA in the list of recognised bodies. We will now be included in the Charities Act 2011, s 145. The amendment to the legislation was put before parliament on 19 February and approved on 23 February – take a look at www.lexisurl.com/ifa-ch25 to see things in black and white. We are now planning to talk to the Scottish and Northern Irish regulators regarding amending their regulations. Anne Davis, the IFA's head of regulation and policy, explains more about this exciting development on page 26.

We are also making very good progress with the integration of our back office systems and processes with those of the IPA. Some critical milestones are looming, but we are broadly on target with the integration plan. As ever, the devil is in the detail but the team is putting in a tremendous amount of effort to deliver this project. The integrated back office with up-to-date technology is one of the key benefits of the recent amalgamation with the IPA. Members will also, of course, be entitled to the dual IFA and IPA professional designations. On this score, certificates confirming membership grades in the IPA will be sent out during April; so long, of course, as membership has been renewed by 31 March. But with all of the exciting developments at the IFA, there really is no reason not to...



“From 31 March 2015, IFA members will be entitled to act as independent examiners of charity accounts up to the revised threshold of £1 million. We have been working with the Cabinet Office for some time to secure the inclusion of the IFA in the list of recognised bodies. We will now be included in the Charities Act 2011, s 145. The amendment to the legislation was put before parliament on 19 February and approved on 23 February.

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QUICK VIEW

✉ PAYE CODE NUMBERS

Making sure that employee clients have the correct PAYE code number is an integral part of keeping their tax affairs up to date.

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✉ BUSINESS DEVELOPMENT

Does your business cost the earth? A socially responsible approach may be the answer.

page 16

✉ BUSINESS PRACTICE

Suggestions for solving the problems that are caused by the late payment of debts.

page 22

David Woodgate
IFA Chief Executive

TAXATION

Budget

HMRC have published Budget documents on their website.

www.lexisurl.com/ifa-1098

REGULATORY

Invasive plants

Following the introduction of the Infrastructure Act 2015, environmental authorities in England and Wales can now issue species control orders compelling landowners or occupiers to control or eradicate invasive non-native plants.

www.lexisurl.com/ifa-1100

TAXATION

Official interest rate

HMRC have announced that the official rate of interest (used, for example, to calculate a taxpayer's benefit-in-kind charge on beneficial loans) will be 3% from 6 April 2015.

www.lexisurl.com/ifa-1099

BUSINESS

Employee ownership

The government's model documentation for a company with employee ownership has been updated to take account of provisions in FA 2014.

www.lexisurl.com/ifa-1140

TAXATION

Liechtenstein

The Liechtenstein disclosure facility (LDF) will now end in December 2015.

www.lexisurl.com/IFA-1090

THE IFA IS RELOCATING

The IFA will be relocating its offices from Sevenoaks to Euston, London in April 2015. We are planning to close our business operations for two working days on Friday, 17 April and Monday, 20 April to complete the move and to recommence in Euston on Tuesday, 21 April. The new office address will be: Institute of Financial Accountants, The Podium, 1 Eversholt Street, Euston, London NW1 2DN.

The telephone number is +44 (0)20 7554 0730.

The fax number is +44 (0)20 7554 0731.

Further details will be provided nearer the date of the move.

TAXATION

Enveloped dwellings

HMRC have published updated guidance on the annual tax on enveloped dwellings (ATED). This is payable by companies that own high-value residential property (a "dwelling") in the UK.

www.lexisurl.com/ifa-1097

TAXATION

Construction industry

HMRC will be hosting a live webinar of the construction industry scheme on 13 April 2015 (1pm to 2pm). The webinar will cover how the scheme works, taking on and paying subcontractors, and how to meet tax obligations.

www.lexisurl.com/ifa-1096

BUSINESS

Corporate behaviour

A recent report suggests that company boards should ask questions relating to:

- the goals and purposes of their organisation;
- the behaviours it wishes to encourage and discourage; and
- the tone set and conveyed.

This should help boards to understand their corporate culture.

www.lexisurl.com/ifa-1106

REGULATORY

Company registers

An updated list of worldwide company registers has been published.

www.lexisurl.com/ifa-1107

TAXATION

Capital gains

From 6 April 2015, non-UK residents must declare the sale of UK residential property because a capital gains tax liability may arise. HMRC have published guidance.

www.lexisurl.com/ifa-1095

REGULATORY

Parents & subsidiaries

From 1 January 2015, regulations update references to "parent" and "subsidiary" for determining whether a foreign company is controlled by a UK person.

www.lexisurl.com/ifa-1139

PENSIONS

Auto enrolment

The lower and upper earnings amounts for the auto enrolment qualifying earnings band will be increased for 2015/16.

www.lexisurl.com/ifa-1138

CHARITIES

Change of structure

The Charity Commission has published guidance on how a charity can change its structure from an unincorporated association or trust to a charitable company or incorporated organisation and also on charity asset transfers.

www.lexisurl.com/ifa-1110

www.lexisurl.com/ifa-1111

NET LAWMAN

The IFA is pleased to announce that Net Lawman have become a Member Benefit Partner.

Net Lawman is an online retailer of legal document templates – an alternative source of contracts, agreements, minutes and notices to a traditional firm of solicitors. In addition to a vast range of easily assessable documents, Net Lawman also provides a review service by their legal team.

Further details about Net Lawman can be found on the members-only pages of the IFA website. The IFA looks forward to working with Net Lawman this year and developing a long-term, mutually beneficial relationship.



ACCOUNTSEX



Now in its fourth year, Accountsex is the UK's only national exhibition for accountants and finance professionals working in practice, business and the public sector. It offers an unparalleled opportunity for finance professionals to gain expert insight and education within a live environment. This year's exhibition runs from Wednesday, 13th May to Thursday, 14th May at ExCel London. For more information follow the following link: www.accountsex.co.uk/tracker.asp?code=ifa Click on the button "Order Free Tickets Button".

Please also ensure you visit the IFA exhibition stand when you are there.

TAXATION

FATCA

HMRC have updated their guidance on the Foreign Account Tax Compliance Act (FATCA) and how information must be reported to HMRC.

www.lexisurl.com/ifa-1094

TAXATION

Stock exchanges

From 4 February 2015, Euronext London has been designated as a recognised stock exchange by HMRC ITA 2007, s 1005(1)(b).

www.lexisurl.com/ifa-1093

TAXATION

Agent update

HMRC have published *Agent Update 46*. This includes information on

- Capital gains tax for non-residents.
- Tax on contractor loans.
- Corporation tax – corporate debt and late paid interest.
- Employment intermediaries.
- Employer National Insurance contributions for under 21s.
- Shared parental leave and pay.

www.lexisurl.com/ifa-1089

REGULATORY

Register of control

A working group has been established to oversee the development of guidance relating to the new PSC register of those with significant control.

www.lexisurl.com/ifa-1102

TAXATION

Charities

Charities, community amateur sports clubs, their nominees, collection agencies or authorised agents can use HMRC's Charities Online service to claim tax repayments in respect of gift aid, other income (eg bank interest) and top-up payments under the gift aid small donations scheme (GASDS).

www.lexisurl.com/ifa-1086

REGULATORY

Share buybacks

Regulations will make changes to the Companies Act 2006, Part 18 relating to company share buybacks. Affected matters include authorisation and financing and holding repurchased shares in treasury.

www.lexisurl.com/ifa-1153

TAXATION

Starting rate

HMRC have published information on how the 0% starting rate of tax will operate from April 2015.

www.lexisurl.com/ifa-1091

PENSIONS

Pensions advice

As part of the new pensions flexibility rules, free and impartial advice will be available. This will be known as "Pensions wise" and will be delivered by the Pensions Advisory Service and Citizens Advice.

www.lexisurl.com/ifa-1104

TAXATION

Intermediaries

From 6 April 2015, intermediaries must supply HMRC with details of workers placed with clients where PAYE has not been operated on the workers' payments. HMRC have published guidance.

www.lexisurl.com/ifa-1092

REGULATORY

Company ownership

A report has been published examining the potential impact of proposals to improve the transparency of corporate ownership.

www.lexisurl.com/ifa-1103

TAXATION

Landfill tax

HMRC have published guidance on changes to the regime for waste fines.

www.lexisurl.com/ifa-1082

EMPLOYMENT

Fit for work

The government's "fit for work" advice line is now operational. A referral service will provide an occupational health assessment and return to work plan where an employee is off work sick for more than four weeks.

New guidance has also been published.

www.lexisurl.com/ifa-1108

www.lexisurl.com/ifa-1109

AUTO ENROLMENT – ARE YOU READY?

Auto enrolment (AE) is happening and larger organisations already find themselves dealing with it on a weekly and monthly basis. However, the staging dates for small and micro-businesses are looming as thousands of businesses prepare for it.

IFA and FTA members should ask themselves whether they know their own and their clients' staging dates, are they planning for it? Are you ready? Do you understand the AE complexities? Could it be an opportunity for you?

The IFA have added a section to the website under the members' area to provide information and support around the topic of auto enrolment. Please visit this section using the link – <http://www.ifa.org.uk/members/new-members/auto-enrolment/>

Auto enrolment will affect members in both business and practice.

MEMBER BENEFITS AND SERVICES

The IFA is delighted to again be working with a range of organisations to provide members with a valuable variety of benefits and services.

These benefits and services can be seen on the members-only area of the website. We would recommend you take a few minutes to refresh or familiarise yourself with the range on offer. By clicking into each category, you will find detailed information and links to help with further interest or action.

The website address is www.ifa.org.uk. Go to the members' area, specifically member benefits and login using your email address and password.

TAXATION

PAYE delays

HMRC have announced that employers will not incur penalties for delays of up to three days in filing PAYE information.

www.lexisurl.com/ifa-1081

TAXATION

Subscriptions

"List 3", HMRC's schedule of the professional body subscriptions that are eligible for tax relief has been updated.

www.lexisurl.com/ifa-1087

BUSINESS

Cyber security

The government has announced further support for businesses to improve cyber security. These include:

- a report detailing common cyber attacks and their prevention;
- improved information and advice;
- funding for cyber security start-ups; and
- an updated cyber security guide.

www.lexisurl.com/ifa-1101

EMPLOYMENT

Holiday pay

From 8 January 2015, in certain circumstances, the Deduction from Wages (Limitation) Regulations SI 2014/3322 limit claims for a series of unlawful deductions from wages to two years. This applies to claims submitted to an employment tribunal on or after 1 July 2015.

The Working Time Regulations SI 1998/1833 are also amended to prevent contractual claims for holiday pay being brought in the civil courts to avoid the two-year limit.

www.lexisurl.com/ifa-1120

TAXATION

Fuel rates

HMRC have updated their guidance on the advisory fuel rates for company cars and when these can be used.

www.lexisurl.com/ifa-1088

BUSINESS

Construction guidance

The Health and Safety Executive has published guidance on the requirements of the Construction (Design and Management) Regulations 2015. These come into force from 6 April 2015. Guidance is also available for small businesses.

www.lexisurl.com/ifa-1105

TAXATION

Company cars

The multiplier figure for calculating the benefit of fuel received for a company car is increased to £22,100 and the van benefit is increased to £3,150 from 6 April 2015.

www.lexisurl.com/ifa-1131

TAXATION

National Insurance

Pamphlet CWG2: *Further guide to PAYE and National Insurance contributions* has been updated.

www.lexisurl.com/ifa-1084

TAXATION

Married couples

Married couples who are entitled to the transferable allowance can now register for this online.

www.lexisurl.com/ifa-1083

REGULATORY

Company forms

Companies House has updated its guidance on the following forms.

- DS01 – Striking off application by a company.
- MR01, MR02, MR04, MR05 – various aspects relating to the particulars of a charge.

www.lexisurl.com/ifa-1137

www.lexisurl.com/ifa-1136

TAXATION

Salaried partners

New regulations confirm that salaried members of limited liability partnerships will be subject to Class 1 and Class 1A National Insurance if three conditions are met. This has effect from 6 April 2014.

www.lexisurl.com/ifa-1135

QUIDCYCLE

The IFA is pleased to announce that QuidCycle has become an IFA member benefit partner.

QuidCycle is an ethical financial services company helping middle-income professionals achieve financial success, by bringing borrowers and savers together so that they all benefit. They provide a platform of mutually beneficial products and financial education to both borrowers and lenders. The company is driven by the belief that everyone should have a fair shot at financial success and their mission is to help the UK's middle-income families and individuals take control of their finances and achieve financial success while raising consumer confidence in financial services.

Borrowers reduce the cost of their borrowing by receiving a lower rate loan, significantly reducing the time it takes to pay off their debts.

Investors receive a competitive return, allowing them to grow their nest egg. In essence, everyone benefits.

Further details can be found on the members-only pages of the IFA website.

The IFA looks forward to working with QuidCycle this year and beyond, to develop a mutually beneficial relationship.

QuidCycle.

TAXATION

Employer Bulletin

HMRC's *Employer Bulletin 52* has information on end of year matters and PAYE code numbers etc.

www.lexisurl.com/ifa-1080

TAXATION

Phishing

HMRC have issued information on recognising genuine HMRC contact and phishing or bogus emails.

www.lexisurl.com/ifa-1079

TAXATION

Pension flexibility

HMRC have published guidance on the new pension flexibility rules that apply from April 2015.

www.lexisurl.com/ifa-1077

TAXATION

Car changes

HMRC have launched an online trial that will allow company car drivers to change the car and fuel benefit elements of their tax codes.

www.lexisurl.com/ifa-1076

TAXATION

Tax avoidance

Explanatory notes on the new rules that apply to promoters of tax avoidance schemes have been published.

www.lexisurl.com/ifa-1078

EMPLOYMENT

Parental leave

Various measures have been introduced relating to parental leave.

- Additional questions and answers on the interaction between parental leave, pay and sick leave are now in the employers' technical guide.
- Two new booklets on leave and pay have been published by the TUC.

www.lexisurl.com/ifa-1132

www.lexisurl.com/ifa-1133

SAP BUSINESS ONE



The IFA has recently endorsed the SAP Business One software package – a complete business management package designed specifically for small to medium-sized businesses. It is a single piece of software to manage all business functions in one place by joining up business processes. It manages accounting and finance, sales, CRM, purchasing, warehousing and stock, HR and reporting – allowing easy access to the right data.

The software is available in the Cloud on a monthly subscription basis. It is inclusive of support and all upgrades and updates.

To build awareness of SAP Business One, the IFA will be working alongside Ascarii, a supplier of Cloud-based business management software, a SAP Gold Partner and the UK's only dedicated SAP Business One Cloud partner.

Further details about SAP Business One can be found on the members-only pages of the IFA website. In addition, Ascarii run regular webinars introducing the product.

The IFA looks forward to working with Ascarii this year and developing a long-term, mutually beneficial relationship.

TAXATION

Real time penalties

HMRC have announced that a three-day "period of grace" will be given to small businesses before penalties are applied.

www.lexisurl.com/ifa-1134

TAXATION

Company directors

HMRC have updated their guidance on Class 1 National Insurance contributions for company directors.

www.lexisurl.com/ifa-1085

EMPLOYMENT

Wellbeing

The Office of National Statistics has published *Measuring National Well-being: Our Relationships, 2015*. As well as considering family relationships this highlights the importance of positive connections in the workplace.

See also Justine Riccomini's article on page 18 of this issue.

www.lexisurl.com/ifa-1151

PENSIONS

Pension reform

The Society of Pensions Professionals has published *Ten questions to ask before you spend your retirement savings* in advance of pension reforms that come into effect from April 2015. See also the GOV.UK website for a more information on the new pensions regime.

www.lexisurl.com/ifa-1150

www.lexisurl.com/ifa-1152

YOUNG FARMERS

The Young Farmers' Scheme provides a top-up payment for those farmers who meet the eligibility criteria outlined in Northern Ireland's Department of Agriculture and Rural Guidance (DARD) booklet (www.lexisurl.com/ifa-yfpg).

As a result of member feedback, we were made aware that IFA members in Northern Ireland were not permitted to sign the statement/letter by a "qualified accountant" because footnote 1 on page 6 of this guidance did not include the IFA.

The IFA have since been in touch with DARD and, as a result of discussions, IFA members in Northern Ireland will now be able to certify the relevant details for young farmers to qualify for the scheme. Footnote 1 on page 6 in the guidance will be amended as follows:

"By qualified independent accountant, we mean someone who has qualified with and is a current full member of an organisation which is considered to be a member of CCAB or someone who is qualified with and is a current full member of CIMA or AAT or other equivalent accountancy institute or association which is a member of IFAC or additionally CIOT and is independent of the applicant and the business and is not a member of the same household as the applicant."

Because the IFA is a full member of IFAC, IFA members will now be eligible to provide this service. DARD will be updating their guidance in due course.



The big Budget

Richard Curtis looks over the Budget proposals that are most relevant to SMEs and their proprietors.

TEN SECOND SUMMARY

- 1 The last Budget before the general election.
- 2 Personal allowance increases are effective for basic and higher-rate taxpayers.
- 3 "Digital by default" takes another big step forward.

The March 2015 Budget was the last before the now rapidly approaching general election. Before the speech, George Osborne had promised that there would be "no giveaways and no gimmicks". To some extent that was true, but he could not resist flagging up some proposals that he promised would benefit hard-working people and he also took the opportunity for a few barbed comments in the direction of Labour leader Ed Miliband.

Those of us with long memories will remember when the contents of Budgets were closely guarded and, while there may have been rumours, little was known before the speech. How different things are nowadays. The draft Finance Bill 2015 legislation was published in December 2014 and hints of various forthcoming changes had been widely circulated already.

Personal allowances

The measure that affects us all is the increase in personal allowances. Currently £10,000, these will rise to £10,600 from 6 April 2015 and the Budget announced rises to £10,800 for 2016/17 and £11,000 in 2017/18. The chancellor described this as "a down-payment on our commitment to raise the personal allowance to £12,500."

An interesting element here is that the higher rate threshold is also increasing and a target of £50,000 was mentioned.

We know that the higher-rate threshold will rise from £41,865 this year to £42,385 next, but this masked a reduction in the basic rate band as the benefit of personal allowance increases were clawed back from higher-rate taxpayers. Increases in the threshold to £42,700 and £43,300 were announced for 2016/17 and 2017/18 and the basic rate band will rise from £31,785 for 2015/16 to £31,900 and £32,300 for the two following years. What this will mean is that higher-rate taxpayers will gain more from the personal allowance increases than those paying the basic rate.

Simplification

The word "simple" featured several times in the Budget speech: a simple system, simple taxes and simple payment. Those looking at the various volumes of tax legislation in their office may want some convincing, but tucked away in the Budget speech was the chancellor's comment that "to support five million people who are self-employed, and to make their tax affairs simpler, in the next parliament we will abolish Class 2 National Insurance contributions for the self-employed entirely."

That sounds good, although at £2.75 a week this is hardly an onerous liability. However, what effect will this have on Class 4 National Insurance contributions and will they be brought more into line with Class 1? What effect will this have on benefit entitlement and could an increased Class 4 rate reduce one of the benefits of self-employment? Advisers will want to keep a close watch on any consultation on this measure.

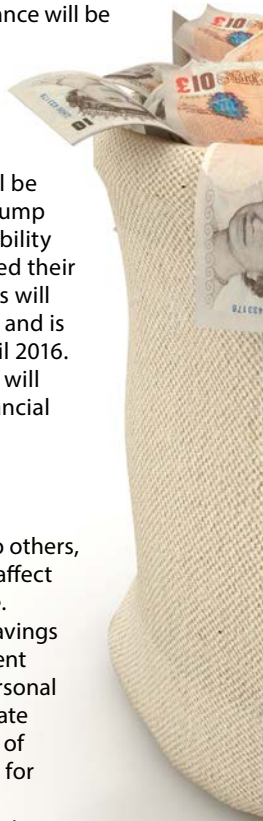
Talk of National Insurance contributions makes me think of pensions and the chancellor confirmed some well-anticipated changes to the private pension regime. The lifetime allowance will be reduced from £1.25m to £1m from 6 April 2016 and advisers may need to get to grips with the calculations that are required to check that this is not exceeded.

Those in receipt of annuities will be able to exchange these for a cash lump sum, giving them some of the flexibility of those who have not yet converted their pension pot to regular income. This will be included in a future Finance Bill and is planned to come into effect in April 2016. Whether this will be of real benefit will probably require some serious financial advice to determine.

Savings

Moving from one form of savings to others, changes were announced that will affect those reliant on investment income.

Advisers may be familiar with the savings rate, but a Budget day announcement was that, from April 2016, a new personal savings allowance will allow basic-rate taxpayers to receive the first £1,000 of any interest tax-free. The allowance for higher-rate taxpayers will be £500. These allowances will be in addition to the starting rate for savings income.





ISAs will also be made more flexible. From autumn 2015, a “fully flexible ISA” will allow savers to take money out of such investments and reinvest it later in the year without losing any of their tax-free entitlement. This could be useful for those taxpayers who want a short-term loan to, for example, pay their tax liability.

For those looking to the longer-term, the “help to buy ISA” targets young people seeking to buy their own home.

The accounts – expected to be available from autumn 2015 – allow savers to pay in an initial £1,000 contribution and then save up to £200 per month. Returns on the savings will not only be tax-free, but will also be matched so that for every £200 contributed, the government will contribute £50, with a maximum bonus of £3,000 on £12,000 saved. The bonus will be payable when the funds are used to buy a property.

Entrepreneurs’ relief

For businesses, many changes – such as the reduction in the rate of corporation tax to 20% – had been announced already, but some new anti-avoidance measures could be relevant to readers.

The perceived misuse of capital gains tax entrepreneurs’ relief has been in the news recently, specifically with regard to the restriction on relief where goodwill is transferred to a company. The Budget included an announcement

that the disposal of privately owned assets were benefiting from the relief under the “associated disposals” rules, but without the owner making a meaningful withdrawal from the business. From 18 March 2015, claims to relief will have to be accompanied by the disposal of at least a 5% interest in shares or partnership assets.

There was a similar measure to prevent relief being obtained where joint venture structures were being used to facilitate claims to the relief by individuals who had only a small interest in a trading company. From Budget Day, the claimant must have at least a 5% direct shareholding in a genuine trading company.

Entrepreneurs’ relief provides a valuable reduction in tax liability and, when giving advice, practitioners should be clear as to the heading under which the relief is being claimed and that anti-avoidance provisions do not bite.

Business tax

The annual investment allowance was due to be reduced from £500,000 to £25,000 in January 2016. The chancellor announced that the reduced allowance is unlikely to be as low as £25,000.

The simplified expenses regime relating to the business use of a home and where business premises are also a home is to be extended to members of partnerships.

Advisers in rural areas will be interested in the announcement that farmers will now be able to average their profits over a five-year rather than two-year period. I was under the impression that they already could because, under the present system, the averaged second year profits could in turn be averaged with the third year’s profits and so on. This might be a measure of some complexity rather than simplicity, but farmers will be happy with any measure that allows the more effective use of personal allowances and tax bands.

Administration

The expression “digital by default” has been heard in HMRC’s quarters for some time and another big step in this direction was taken with the chancellor’s announcement that “we will abolish the annual tax return altogether.”

Stating that the annual tax return preparation exercise was “complex, costly and time-consuming” the news was that HMRC would automatically upload information into new digital tax accounts that taxpayers could manage online. The policy and administrative changes will be the subject of a “roadmap” later this year. In the words of Mr Osborne, “tax really doesn’t have to be taxing, and this spells the death of the annual tax return.”

No doubt accountants and tax practitioners will be keeping a close watch on the full implications of this as more details are released in due course. The effect this will have on their businesses and the way that they work with clients could lead to some interesting times.

FURTHER INFORMATION

HMRC Budget pages: www.lexisurl.com/HMRC2015
GOV.UK Budget pages: www.lexisurl.com/GOV2015



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Paying a proper wage

With “naming and shaming” a real threat, *Zeeshan Rizvi* warns that advisers must ensure compliance with the national minimum wage legislation.

TEN SECOND SUMMARY

- 1 The national minimum wage has various rates depending on age.
- 2 Common problem areas that may result in erroneous payment.
- 3 The work that should be included in “working time”.

The idea of a minimum wage is not new and in the UK's recent history it dates back to Winston Churchill's Trade Boards Act 1909. These boards regulated the pay of workers in industries that employed cheap labour and were intended to ensure that workers received “a living wage” in industries where they were disadvantaged by the bargaining strength of their employers. By the mid-1900s, the trade boards had become wages councils, but these were abolished in the 1980s and 1990s as no longer serving their purpose. The UK's National Minimum Wage Act 1998 established a minimum wage from 1 April 1999. At that time, the rate was £3.60 per hour for adults and a “development rate” of £3.00 for 18 to 21 year-olds. Separate rates were introduced for 16 to 17 year olds from 1 October 2004 and for apprentices from 1 October 2010. The development rate then applied to 18 to 20 year-olds and the adult rate applied for 21 year-olds. The wage has been increased annually on 1 October.

Spotlight on shaming

Since its somewhat controversial introduction in the late 1990s, the national minimum wage has become a well-established part of the employment law landscape. However, it has recently returned to the spotlight as the government and HMRC have taken the view that “naming and shaming” employers who are in breach of these regulations – and of failing to keep up with immigration rules – will help to enforce the legislation.

On 24 February 2015, having previously identified almost 100 employers for non-compliance, HMRC named another 70 employers who had failed to pay their workers the national minimum wage. In total, these 70 employers owed more than £157,000 to their workers and were charged financial penalties as well.

Business Minister Jo Swinson said: “Paying less than the minimum wage is illegal, immoral and completely unacceptable. Naming and shaming gives a clear warning to employers who ignore the

rules, that they will face reputational consequences as well as financial penalties of up to £20,000 if they don't pay the minimum wage.”

That this is a matter for employers large and small is illustrated by the list of those named and shamed. At the top of the list is a care business that neglected to pay £37,592.56 to 184 workers (an average of about £200 per worker), but second is a company that owed £11,731.52 to one worker. At the foot of the list is a pizza business that had neglected to pay £101.64 to an employee.

Dangerous underpayments

Micro-employers do not always use accountancy or payroll services, especially those employing one or two members of staff. What the list of named and shamed businesses illustrates is the danger if these employers do not keep up to date with the legislation and annual rate increases. There may be businesses that deliberately underpay their workers, but employees who are aware of this can report them to the HMRC helpline. On the other hand, there will be employers or their advisers who have made mistakes in their calculations or have forgotten to increase the rate of pay. The employee may notify HMRC and they may lose state benefits because they should have been paid more and the employer can expect a visit from a national minimum wage officer.

National Minimum Wage Rates

From October 2015, the national minimum wage rates per hour will be:

Age	Rate £
21 and over	6.70
18 to 20	5.30
16 to 17	3.87
Apprentice	3.30



It is, therefore, very important for payroll providers to keep an eye on these anniversary dates and update their records at that point. As a reminder, the current **National Minimum Wage Rates** are shown below.

NATIONAL MINIMUM WAGE RATES

The national minimum wage rate per hour depends on the employee's age and whether they are an apprentice. The employee must be at least school leaving age to receive it.

Age	Rate £
21 and over	6.50
18 to 20	5.13
16 to 17	3.79
Apprentice	2.73

Common problems

The varying minimum wage rates are key to a number of common problems, the main one relates to apprentices. The £2.73 rate applies to apprentices who are 16 to 18 years old and those who are 19 years and over who are in their first year of apprenticeship. All other apprentices are entitled to the minimum wage based on their age in the second and following years of their employment.

An easy error is failing to notice that an employee has passed a critical birthday and moves from the rate for a 17-year old to the 18-year old rate or from that to the adult rate. Further, where workers are provided with accommodation, this also needs to be taken into account because it can affect the wage calculation.

Acas provides free and impartial information and advice to employers and employees on all aspects of workplace relations and employment law and this includes the national minimum wage. The organisation has a helpline and receives enquiries relating to this subject. Acas advised that most calls tend to be from employees although this is indicative that employers are struggling with wage calculations as well. Some of the key themes are as follows.

- Issues over apprenticeship pay and underlying issues of actual employment status.
- Travel time having not been paid when this is related to work duties (travelling care staff).
- Sleep-ins and national minimum wage. For example, does the wage have to be paid to a care worker or security staff who are on the work premises, but are able to sleep?
- The effect on the national minimum wage for employees who carry out regular extra work like cashing-up, tidying or attending meetings outside of work time and who are not being paid for this.
- Tips, commission and rolled-up holiday pay.
- Misunderstandings about being a small employer and still being liable to pay the national minimum wage.

HMRC advice

I have noticed a rise in national minimum wage enquiries as HMRC examine business records to check employees' pay. As indicated above, enquiries may also be started following complaints by current or ex-employees so ensuring that the correct rate is paid for the correct number of hours worked is very important. The department provides the following advice on what is and what is not "working time".

For all types of work, include time spent:

- at work and required to be working, or on standby near the workplace (but do not include rest breaks that are taken);
- not working because of machine breakdowns, but kept at the workplace;
- waiting to collect goods, meeting someone for work or starting a job;
- travelling in connection with work, including travelling from one work assignment to another;
- training or travelling to training; and
- at work and under certain work-related responsibilities even when workers are allowed to sleep (whether or not a place to sleep is provided).

Do not include time spent:

- travelling between home and work;
- away from work on rest breaks, holidays, sick leave or maternity leave;
- on industrial action; and
- not working, but at the workplace or available for work at or near the workplace during a time when workers are allowed to sleep (and you provide a place to sleep).

HMRC provide some examples of the rules in practice at www.lexisurl.com/worktype.

Conclusion

The national minimum wage is becoming a very emotive subject as evidenced by the recent news that even the Church of England has attracted criticism for advertising jobs below the living wage. This is slightly more than the minimum wage and is calculated according to the basic cost of living in the UK. The current rate for outside London is £7.85.

For many small and medium-sized businesses, their manpower is the backbone of the services that they provide. On one hand they may perceive increases in the national minimum wage as increasing their costs and reducing their profit and, perhaps, even their viability. On the other hand, non-compliance is a dangerous game and being "named and shamed" for not paying the minimum wage could result in local adverse publicity and a loss of business. IFA members who are advising on this subject and carrying out payroll calculations for their clients should therefore take extreme care that they are fully compliant with national minimum wage legislation. Make a note now that the rates will increase again on 1 October 2015.

FURTHER INFORMATION

HMRC press release
24 February 2015: www.lexisurl.com/nmwnames
NMW calculator: www.lexisurl.com/nmwcalc
Acas helpline: 0300 123 1100
HMRC's NMW helpline: 0845 6000 678
School leaving age: www.lexisurl.com/nmwage
Pay and work rights: www.gov.uk/pay-and-work-rights



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Decoding codes

A good understanding of how the PAYE system and its tax codes operate will help when explaining tax liabilities to clients, says *Ali Redwood*.

TEN SECOND SUMMARY

1. The correct code should collect tax on pay, benefits in kind, taxable state benefits and other sources of income.
2. Care should be taken when week 1 or month 1 codes are operating.
3. Suffix letters indicate entitlement to certain standard allowances and avoid the need for individual adjustments to codes by HMRC.

The pay as you earn (PAYE) system deducts income tax and Class 1 National Insurance contributions from pay before the employee receives the net amount. HMRC issue a tax code for each employee which the employer uses in conjunction with payroll software to work out the tax to be deducted. This may be a statement of the obvious, but with computerisation it easy to forget the calculations that are going on “behind the scenes”. As long as everything is working as it should, this is not a problem, but a basic understanding of PAYE code numbers, how they are calculated, and their function can, I hope, help in the identification of potential problems. And once identified, solutions can be found before incorrect liabilities have been calculated and – worse – calculated incorrectly over a long period of time.

Tax codes are made up of numbers and letters and will be advised to the employer and employee (usually on forms P6 and P2 respectively) and shown subsequently on the individual employee's payslip and forms P60 and/or P45. Calculated correctly, the code can collect tax not only on the employee's pay, but benefits in kind, taxable state benefits and other sources of income as well.

The right amounts

As an example, the most common code is probably 1000L, which means that the employee can earn the standard personal allowance for 2014/15 of £10,000 over the tax year, without paying tax. The code number comprises the net personal allowances available to be deducted from salary, with the last digit removed. Usually, the PAYE system operates by spreading this free pay across the year and the appropriate proportion (£833.33 a month or £192.30 a week in this case) is deducted from the salary before tax is calculated at the appropriate rate on the net amount.

As an example, John Smith earns £25,000 a year paid monthly. Tax is calculated as follows.

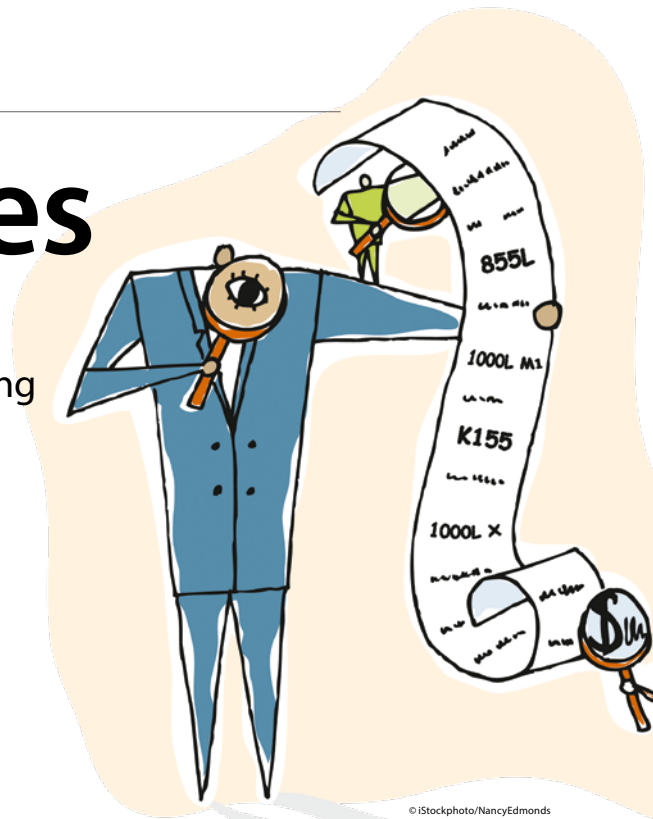
Gross pay for month	£2,083.33
Less: “free pay” (£10,000 / 12)	£833.33
Taxable pay	£1,250.00
Tax due at 20%	£250.00

If an employee receives a benefit in kind from their employment, the tax-free personal allowance and thus the code number is reduced thereby increasing the amount of pay that is taxed by an equivalent amount. In this way, the value of the benefit is taxed. For example, John's employer pays for medical insurance on his behalf. The premiums and thus the benefit is £1,450 a year. John's PAYE code is now reduced as follows.

Personal allowance	£10,000
Less: benefit	£1,450
Adjusted tax-free pay	£8,550
New tax code	855L

Using a code number of 855L, the PAYE system will allow only £712.50 to be earned free of tax each month before tax is charged. This will collect additional tax as follows.

Previous tax-free allowance	£833.33
Adjusted allowance	£ 712.50
Increase in taxable income	£120.83
Monthly increase taxed at 20%	£24.15



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Over the year the additional tax collected of £289.80 (£24.15 x 12) equates (almost) to the tax of £290 that would be due on the benefit of £1450 (taxed at 20%). Perhaps at this point we should explain that the PAYE system does allow for some "rounding". Generally, unless there are other reasons, if the tax collected under PAYE is close to the correct amount HMRC would not bother to collect the difference.

K codes

The letter "K" is used as a suffix to an employee's tax code where the deduction for company benefits, state pension, other income or tax owed from previous years exceeds the personal allowance.

John's employer provides him with an expensive company car and fuel as well as medical insurance. The total value of these benefits equal £11,150 and the "K code" is calculated as below.



Personal allowance	£10,000
Less: benefits	£11,150
Adjusted tax-free pay	£-1,150
New tax code	K115

Rather than deducting an allowance from salary to arrive at the chargeable amount, the K code operates by adding an amount (in this example £1,150) to the employee's pay. This ensures that tax is recovered on the whole of the salary and benefits during the year under PAYE.

Under John's original code of 1000L, tax of £3,000 (12 x £250) would have been collected. However the K code collects tax of £5,230 ((£20,000 + £11,500 - £10,000) x 20%), an increase of £2,230. This is equates to tax on the benefits of £11,500 taxed at 20%.

Month 1 or week 1 codes

The PAYE system is designed to collect the correct amount of tax over a complete tax year by operating on a cumulative basis. Rather than calculating the liability for each month separately, the system takes the total pay since the previous 6 April, deducts the appropriate total number of weeks' or months' worth of allowances, calculates the tax due on the total net chargeable amount and then deducts the tax paid in the previous months to arrive at that latest month's liability. Even if the employee changes jobs, the system will continue to work in this way if they obtain a P45 showing cumulative pay, tax and the PAYE code from his old employer and passes this to the new one.

However, if a P45 is unavailable or in other circumstances – for example if allowances have been reduced during the year – the code will operate on a "week 1" or "month 1" basis. Each pay period is treated as if it were the first week or

month of the year and tax is collected on a non-cumulative basis. The operation of such codes will usually be indicated by "W1" or "M1" after the code. In such cases, the employee or their agent should check the liability at the end of the year in case there has been an over or underpayment of tax.

Underpayments of income tax may be recovered by an adjustment to the PAYE code number.

As an example, let's say that John is a basic rate taxpayer and had underpaid income tax of £500 in the previous year. His code could be reduced by a "reduction to collect unpaid tax" of 250 (ie 1000 - 250 = new code of 750L). This will have the effect of taxing an additional £2,500 of his salary at 20%, thus collecting an extra £500 over the course of the year. If John has to complete a self-assessment tax return, it is important that this amount is reflected on the return to avoid it being repaid in error.

Tax code letters

The number of a tax code reflects the net personal allowances that can be deducted from or (in the case of K codes) added to the gross pay to determine the net chargeable amount. The main purpose of the suffix letters is to indicate the standard allowances that are included in the code. When these allowances are adjusted in a Budget, the employer can then simply be advised to increase (or reduce) these codes by a fixed amount. This avoids the need for HMRC to adjust and issue a revised notification of every employee's code.

The most common suffix letters and what they represent are as follows.

- L Basic personal allowance for someone aged under 65.
- P Full age-related personal allowance if born between 6 April 1938 and 5 April 1948.
- T The tax office will review the tax code. For example, where tax affairs are complex.
- Y Full age-related personal allowance for someone were born before 6 April 1938.

Other codes

In addition to the suffix letters above, some codes "0T", "BR", "D0" and "D1" signify that no allowances are available to be deducted from pay, perhaps because they have been allocated against another source of income.

Code 0T means that income tax is deducted at the appropriate rate or rates depending on the amount earned. Under codes BR, D0 and D1 tax is deducted at 20%, 40% or 45% respectively. Conversely, "NT" means that no tax is chargeable on that source of income, perhaps because the taxpayer is not resident in the UK.

Since its introduction in 1944, the PAYE system has substantially performed its function of collecting tax and thereby avoiding the need for a formal assessment of liability for many millions of UK taxpayers. A basic understanding of the system is essential for decoding those entries on a client's payslip.



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Another pair of hands

Starting up in business is just the first step; the next may be more difficult. **Richard Curtis** looks at the requirements of taking on that first employee.

TEN SECOND SUMMARY

- 1 Unlike simply setting up in business as a sole trader, there are various strict legal requirements to be complied with when taking on an employee.
- 2 Is the employer certain that the applicant has the right to obtain employment in the UK and the supporting documentation?
- 3 With exceptions for family members and those working abroad, employers' liability insurance is a strict requirement and a substantial fine can be levied for non-compliance.

Deciding to start up a business of one's own is a major step. The budding proprietor may be exchanging the relative security of a regular salary for the less guaranteed income that arises from finding paying customers. As well as the fundamentals of providing those customers with the goods and services that they need at a price they can afford and pay for, there are various legalities to be complied with. Compared with other countries, it is relatively easy to set up a business in the UK. At its most basic, and with some exceptions, Joe Bloggs can begin trading as "Bloggs & Co" – in whatever his chosen field is – as soon as he is ready. Depending on the goods or services provided, premises and various insurances may be required and HMRC and other organisations may need to be informed, but things are fairly straightforward. If Joe decides to operate through a partnership or limited company there are, of course, more formalities to be complied with.

Let's assume that Joe's business thrives and eventually he finds that there are not enough hours in the day to deal with all his orders. The next thought is presumably that he should find some assistance. He may be able to subcontract some of the work, but will this give him the control and certainty that he needs? He therefore decides to take on his first employee. Here, unlike starting his sole-trader business, there are certainly some legal requirements that must be taken into account.

The GOV.UK website lists six things that must be done when employing staff for the first time.

- Decide how much to pay. An employee must be paid at a rate at least equivalent to the national minimum wage.
- Check whether the person has the legal right to work in the UK. Other employment checks may also be required.

- Apply for a Disclosure and Barring Service (DBS) check. This was previously known as a Criminal Records Bureau (CRB) check and is required for employees who work in a field that requires one; for example, if they work with vulnerable people or in security.
- Obtain employers' liability insurance. This is required as soon as someone is employed.
- Send details of the job (including terms and conditions) in writing to the employee. An employee must be given a written statement of employment if they will be employed for more than one month.
- Register as an employer with HMRC. This can be done up to four weeks before new staff are paid.

Pay and right to work

Zeeshan Rizvi's article "Paying a proper wage" (this issue, page 10) considers the importance of paying at least the national minimum wage to employees. However, if we take a step back from that aspect, perhaps the first consideration should be whether the person has the right to work in the UK in the first place.

The Immigration, Asylum and Nationality Act 2006, s 15 allows the Secretary of State to impose a penalty on an employer who employs a person aged 16 or over who is subject to immigration control unless:

- the employee has valid and subsisting permission to be in the UK and are not restricted from taking the job in question; or
- they are in a category for which employment is allowed.

To conduct a right to work check, the employer must:

- obtain original versions of one or more of the acceptable documents;
- check the documents in the presence of the holder of the documents; and
- make copies of the documents, retain the copies and make a record of the date on which the check is made.

Once the relevant documentation has been obtained, the government's online tool (at www.lexisurl.com/rt2work) can assist employers to determine whether a person is entitled to work in the UK. The onus is very much on the employer to carry out these checks. The Home Office can only be asked for the immigration employment status of a potential employee if:

- the employer is reasonably satisfied that the person cannot produce their documents because of an outstanding appeal or application with the Home Office;



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- they have an application registration card; or
- they have a certificate of application that is less than six months old.

The DBS check

The Disclosure and Barring Service (DBS) carries out criminal record checks for specific positions, professions, employment, offices, works and licences under the Rehabilitation of Offenders Act 1974 (Exceptions) Order 1975 and those prescribed in the Police Act 1997 (Criminal Records) Regulations. If the role for which a prospective employee is applying requires a DBS certificate, the employer should request this as a pre-recruitment check following an offer of employment. There is a list of most of the roles on the internet in the DBS eligibility guidance and the DBS helpline can be contacted in cases of uncertainty.

To obtain a DBS check the employer must

- obtain an application form from the DBS or a registered body that provides this service;
- give the form to the applicant to complete and return with identification;
- send the completed application to DBS or the umbrella body; and
- ask the applicant to see the certificate which they will have been sent by the DBS.

Employers' insurance

As soon as a person becomes an employer they must obtain employers' liability insurance. The policy must include cover of at least £5m, which will cover compensation if an employee is injured or becomes ill because of their work. If insurance is not obtained, the employer may be fined up to £2,500 for every day without cover. However, this insurance may not be required if employees are family members or are based abroad.

The certificate of insurance must be displayed, subject to a fine of up to £1,000 for failure to do so or to produce a certificate when requested.

Written statement

If an employment lasts for at least a month, most employees are legally entitled to a written statement of the main terms and conditions of their employment. This should be supplied within two months. While details of sick leave and discipline and grievance procedures may be contained in other documents, the statement itself should be a single document and must contain information such as:

- the name of the employer and employee;
- the date that the employment or the period of continuous employment started;
- the job location;
- the pay and whether it's weekly, monthly etc;
- the working hours;
- the holiday entitlement;
- the job description / job title; and

- the details of any collective agreement that directly affect the employee's conditions of employment.

This written statement is a legally binding agreement between an employer and employee, where an employee agrees to work for an employer for payment. It is evidence of the contract of employment.

Ideally, the statement should be provided when employment starts, but it must be provided within two months of starting work. Employers should note that failure to provide a certificate could ultimately result in the employee making a claim to an employment tribunal. If this is upheld, compensation of between two and four week's pay could be awarded. Employers should be aware of the potential adverse effect this may have not only on their relationship with that individual employee, but with other members of their workforce.

Register with HMRC

HMRC advise that a person taking on an employee must register as an employer if:

- there is tax or National Insurance due on the amounts being paid or the employee is entitled to National Insurance credits;
- this is the employee's second job or they have a state or other pension as well as the employment; or
- the employee will receive taxable benefits in kind.

It is important that an employer registers with HMRC on time to ensure compliance with the filing requirements of the PAYE Real Time Information rules from the first payday.

Conclusion

Whether it's for that extra pair of hands, to perform day to day tasks or for specific expertise to help expand the business, taking on an employee can be daunting. In addition to the above requirements, don't forget that pensions auto-enrolment is coming for small employers and this may add to the financial burden. For the accountant, making sure that the business has a cashflow forecast incorporating the additional costs will be one of the first steps before proceeding with the recruitment process.

FURTHER INFORMATION

Employing staff for the first time:
www.lexisurl.com/empstaff
 Disclosure and Barring Service checks:
www.lexisurl.com/dbserve
 DBS helpline: 0300 0200 190
 DBS eligibility guidance:
www.lexisurl.com/dbsguide
 Check whether someone can work in the UK:
www.lexisurl.com/rt2work
 Code of practice on preventing illegal working:
 Civil penalty scheme for employers:
www.lexisurl.com/cpse
 Employers' liability insurance:
www.lexisurl.com/empsins
 Written statement of employment:
www.lexisurl.com/wsofemp
 Register as an employer:
www.lexisurl.com/regemp





People, planet and profit

Business doesn't need to cost the earth, says **James Barr** as he recommends an ethical approach for business.



TEN SECOND SUMMARY

- 1 Corporate responsibility and social accountability is increasingly under the spotlight.
- 2 Ethics are at the heart of a socially responsible business.
- 3 Business can be a major force for good in solving global problems.

Governments lay down policies and frameworks for governance, but businesses change societies, attitudes, behaviours and the lifestyles of generations. Whether it is the Ford Motor Company, the Boeing Corporation, Microsoft, Apple, the digital revolution of Facebook, Google and Twitter, or social enterprise businesses from the Big Issue to the Eden Project, all leave a powerful legacy in society to carve and steer the future of the human race. Apple founder Steve Jobs once said "the best businesses identify what the consumer wants before they even know themselves."

A wider scope

With wealth creation comes much more, in perceptions, aspirations, tastes, hopes, new dreams and so on. It creates an aura of influence and responsibility that needs care in its exercise. The digital age shows us the gravity of the issues facing the world today and how we need to act as social beings. Naturally in these times, the corporate responsibility and social accountability of companies come increasingly under the microscope of ethical behaviour.

For too long, businesses have fallen short of their responsibilities, focusing on short-term aims rather than their wider scope or remit. Ironically, many companies that started in the 18th and 19th centuries with a clear social vision have drifted from those roots and some organisations and banks have long lost their way, becoming, instead, scapegoats in recent times for bad behaviour or exposition of greed and excess. We are also in danger of creating

unacceptable levels of wealth inequality in our society. There is a risk that too many young people are marginalised from professional life, without jobs when they leave school or university; older people are deprived of re-employment or career change, and the carbon footprint of our corporate behaviour is ignored. It is totally understandable that there is so much cynicism about what motivates business, and we need to change that.

The Wesley is an ethical hospitality brand and was the result of a passion for a sustainable approach. This applies as much to finance as to any other part of the enterprise; after all, a business must stand on its own two feet. An ethical business should not be diverted from the core focus of its operation; however, the proprietors should ask themselves whether they can extend their vision to:

- creating wealth and jobs (by all means, as much as possible), ethically and without leaving any damage in their wake;
- bringing employees into the company who would normally not be given the opportunity;
- creating and maximising new opportunities, focusing on the longer term rather than just pursuing financial gain at all costs; and
- making financial gains ethically and reinvesting these fairly and sensibly in the business sector in which they are operating.

Profit for purpose

The social and environmental objectives of a business allow surpluses to be reinvested for those purposes or into the community, rather than be used to maximise short-term profit. The social enterprise model best illustrates this. These objectives are at the very heart of the business and profits are distributed with the aim of achieving those purposes.

A socially responsible business places its ethos at the heart of its core business strategy, driven by a social and environmental mission while focusing on the stakeholders. My experience of 20 years in the hospitality and travel industries has taught me that the underlying philosophy behind this sector needs to change. Cheap air travel is unlikely



to be sustainable over a long period. Hotels can notoriously be wasteful with their resources and are often negligent in the disposal of waste. Restaurants should focus on their roots, explore the provenance of their ingredients and stop using processed food as short cuts by providing simple food to suit the seasons and local environment.

But I am sure that most industries are facing similar challenges in terms of managing their resources, reducing wastefulness and getting to grips with their environmental performance. I recommend benchmarking the environmental impact of a company. Over time it will pay off. Here are some top simple tips.

- Set an environmental policy. This sounds obvious, but often it is the simple things that are overlooked. Make sure the policy is relevant to the business. Analyse the supply chain – 75% of a typical organisation's carbon footprint comes from the products and services it purchases. Establish a procurement policy including an attempt to monitor the eco-efficiency of the supply chain.
- Building and energy. Businesses that do not need to operate from a building that uses gas, electricity, boilers, hot water, lighting and electrical equipment will be in a minority. If a building is needed, then manage the situation and make it more efficient. By looking after and restoring a property, not only can energy bills be cut, but the building can be made more pleasant for clients.
- Waste refuse. A business may have all sorts and a hotel can be a dumping ground for other people's rubbish, so needs to be aware of this. There are plastics, glass, ink cartridges, paper, food waste and more. Come to terms with the waste created, then aim to minimise or, if possible, eradicate it.
- Set targets. Examples could be reducing carbon footprint by 6%; becoming a "0% to landfill" company; actively engaging with suppliers with the aim of sourcing from eco-efficient and sustainable sources; improving employee education with a green team as a focal point.
- Measure results. Work out the carbon footprint per employee and/or customer and reduce it. Some waste is easier to reduce than others, but data can be obtained from the waste contractor to measure this. Update the procurement policy and use local suppliers. Market the results – these will probably make the business more competitive to new customers.

Corporate social responsibility (CSR) should no longer be an afterthought of companies, but a powerful force for businesses. This makes an inspirational difference when focusing on the bottom line. A socially responsible business delivers a triple benefit, using profit (or trading) for people and planet. Profits are critical because they enable social objectives to be fulfilled and a CSR philosophy should not underplay the importance of strong financial performance.

According to Tim Smit of the Eden Project, CSR is "a new way of doing business which will,

in due course, come to be seen as the way most businesses should operate. It is a movement that gives capitalism a social heart."

Measuring results

Rather than the usual profit criteria delivered at the annual shareholders' meeting, the end of year review will measure performance success by three criteria. There is nothing esoteric about this; it is already a tried and tested formula and can be significant and powerful. A triple bottom line will focus on the following aspects.

- Gross operating profit: There is no evidence that social and environmental responsibility has a negative financial cost to hospitality businesses. In my experience, the opposite is true. Making it the unique selling point or "USP" can add significantly to profit, both in marketing potential and overhead and cost savings, particularly in energy and utilities. "Will behaving in a socially responsible way make my business more successful and more profitable?" asked David Jones in *Who Cares Wins* "Will my customers and consumers really reward me for this? Will my board? Will my shareholders? I am convinced they will."
- Social impact: How many people are employed and how well are they treated? Wages are normally the biggest cost to any business, so surely it is sensible to develop and optimise the workforce's potential? A responsible company will provide the chance for people with the work ethic, talent and desire to blossom. Does the company contribute to the community and make charitable donations? Do supply chains ensure compliance to ethical standards?
- Environmental impact. This has been mentioned above, but an environmental management standard (ISO14001) targets reduced carbon emissions through a structured environmental management system (EMS) applicable to any industry through management commitment. By setting benchmarks for the reduction and/or elimination of the emission of greenhouse gases, recycling and waste management, and reducing the use of plastic bottles and energy, the business should reduce its carbon footprint with the ultimate aim of becoming carbon-neutral.

Conclusion

The social and environmental impact of a business should be measured in both qualitative and quantitative terms. Stop treating this issue in a tokenistic manner. A socially responsible business gains recognition within and beyond its industry and gives back to society and the environment. To conclude with the words of Archbishop Emeritus Desmond Tutu: "There are many major problems facing the world today. Business has both a responsibility and an opportunity to be a part of the solution and should be a major force for good in helping to solve some of the most pressing problems of our time."



James Barr is business director at The Wesley London Euston, a social enterprise hotel that has also just opened a property in Rome. His previous professional experience was at Thomas Cook and Fairmont Hotels and Resorts, where he occupied a number of different roles in sales, marketing and customer service. Contact James by email at businessdirector@thewesley.co.uk or phone 020 7691 1444.



A matter of mediation

Justine Riccomini explains why it pays to ensure that employee disciplinary matters are managed in a professional and proper manner.

TEN SECOND SUMMARY

- 1 A good relationship with employees is the key to a successful and competitive business.
- 2 Getting staff disciplinary matters wrong can be the end of a business.
- 3 Use Acas and mediation rather than the courts to resolve matters.

In today's increasingly litigious times, it is tempting to think that the only way to resolve an issue with an employee or between two employees is to go to a tribunal. The recent introduction of tribunal fees, combined with possible damages payable by the loser, represent two good reasons to think again.

There is, in many cases, no reason why a potentially harmful situation in the workplace cannot be resolved informally. However, all workplaces need to be managed carefully at all times, not just when things go wrong. It is vital to encourage a culture in the workplace that allows for openness, transparency, employee voice and adult transaction processes. It should also mitigate resentment, bad behaviour, petty squabbles and time lost being unproductive and underperforming.

Management and resources

Nowadays, employers cannot afford to waste resources resolving issues – prevention is a much better measure than cure. The cost of resolving disputes is not just monetary – management time spent not doing the work one is paid to do, employing consultants and having seemingly endless meetings all add to the overall drain on resources. This makes the employer less competitive and the employees less motivated. Trying to keep a disciplinary matter secret is almost impossible and word soon gets around. The best method is therefore to employ good management principles from the outset, to avoid disengagement and, even worse, sabotage.

However, statistics produced by the Chartered Institute of Personnel and Development (CIPD)



show that less than a third of managers are effective in their roles – so why do we not spend more time on training them to handle their management responsibilities properly? The majority of managers who are promoted into a management role were promoted due to their being a good technician in their previous role. They then take on a role that involves managing staff – a role for which they have no training and for which, in all honesty, many simply do not possess the natural instinct or talent to carry off successfully. Couple this with the pressure of work (which is expected to be carried out in addition to the management task) and something is bound to go wrong sooner or later.

The Acas code

Where an issue cannot be resolved informally, formal action is appropriate. Acas have produced a code for disciplinary and grievance matters under the Trade Union and Labour Relations (Consolidation) Act 1992, s 199 and the courts will use this as a checking mechanism to ensure that the essential rudiments of fair conduct and reasonable behaviour have been observed. In early 2015, the secretary of state for business, Vince Cable, tasked Acas with revising its code of practice further to take into account the right of accompaniment by an approved category of person as a result of the case of *Toal & Anor v GB Oils Ltd* UKEAT/0569/12/LA.

Employers would be well advised to ensure that this code has, at the very least, been followed in their handling of disciplinary issues. The courts can increase or decrease an award by up to 25% if they judge the code not to have been followed by the employee or the employer. There is also a handy guide for employers that can be downloaded – *Discipline and Grievances at Work: The Acas Guide*.



Disciplinary action

Disciplinary action is required where the employer considers that the employee has breached the employer's good conduct or good performance protocols. In the better situations, an employer will have set out some suitable wording in a staff handbook or in the terms and conditions of employment explaining what is considered to be unacceptable conduct or performance.

Generally speaking, issues such as bullying, harassment and whistleblowing are dealt with under distinct protocols to disciplinary matters. This helps to keep things focused on the situation at hand and not confuse it with other employment-related issues.

When an issue comes to light which falls under the disciplinary banner, it is important to ensure that the employer acts reasonably and consistently, and keeps records of all discussions, correspondence and actions taken during the disciplinary process, together with the reasoning behind these. It is very important to ensure that the employee is informed of the problem and has the right to state his case before any decisions are made.

The employer should always carry out an investigation of the problem, taking into account all possible stances, opinions and viewpoints, using different people for the investigation work and the disciplinary hearing if at all possible. If a decision is made, the employee must be given the opportunity to appeal and, as mentioned above, the employee has the right to be accompanied to any disciplinary meetings, other than formal investigation meetings, by a suitable person. The person accompanying the employee cannot answer questions on the employee's behalf.

Depending on the nature of the alleged offence, it may be necessary to suspend the person from work. This could be to protect them, or to protect other workers. Remember that the employer has a duty of care over all employees.

However, the employer should inform the employee that the fact they are being suspended is not directly connected to the disciplinary process. It may be the case that business continuity is at risk, for example.

Disciplinary meeting

The employee should always be notified in writing of the intention to hold a disciplinary meeting. Reasons and evidence should be provided, if possible, to give the employee the opportunity to answer the charges fully. No surprises should be forthcoming at the disciplinary meeting. Ideally, a preliminary discussion should be held with the employee to discuss the problem and, if possible, resolve it.

Give the employee, and their chosen companion if they require one, reasonable time to prepare for the disciplinary meeting and advise them if witnesses are to appear.

After the meeting, a decision must be made about whether further action is required. If it is, the employee should be presented with a written warning and a timescale in which to improve performance or conduct. This is assuming the conduct was not sufficiently bad to constitute gross misconduct, for which a decision may be made to dismiss summarily at this point. After the first written warning timescale has expired, and if performance or conduct has not improved, a final written warning might be issued. Note that an employee being charged with a criminal offence which does not directly impact on the business or their ability to carry out their job is not sufficient reason to dismiss someone.

The employee must be informed of the decision and given the right to appeal. Ideally, appeals should be heard by a person who is independent of the original disciplinary meeting. The employee has the right to be accompanied to an appeal hearing and should be advised of the outcome in writing, complete with reasoning.

Other options

Mediation is an excellent method of resolving issues before deciding to take tribunal action. A trained mediator can make all the difference in resolving an issue in the workplace but, to be effective, both employer and employee must willingly participate and agree to take the actions the mediator proposes.

If it appears that a claim will be lodged at a tribunal after all, the claimant must first notify Acas of their intentions. Acas will then offer the parties "early conciliation". This is another way of attempting to resolve the dispute before it reaches a tribunal.

The maintenance of good relations between employers and employees is crucial to the smooth and efficient running of a profitable business. In an ideal world, no problems would arise in this regard, but if they do, dealing with them in a proper manner will avoid wasted costs and time.

FURTHER INFORMATION

Toal & Anor v GB Oils Ltd:
www.lexisurl.com/ToalCase

Acas consultation response on discipline & grievance code: www.lexisurl.com/AcasDisCon

Discipline and grievances at work: The Acas guide:
www.lexisurl.com/AcasDis



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Carrot and no stick

What business does not want productive and motivated employees?

Michael Carter summarises some tax-efficient ways to keep and incentivise them.

TEN SECOND SUMMARY

- 1 Summaries of the various tax-efficient employee share schemes.
- 2 Compliance with legislative requirements will be important.
- 3 The recently introduced employee shareholder status may be affected by political change.

Incentivising staff in these challenging economic times is more important than ever as employers look to increase productivity and retain their workforce. One solution is the use of employee share incentives, which, if structured correctly, can result in tax savings for both the employee and the employer, as well as giving employees a continuing stake in the business they work for. An overview of some of the common types of employee share incentives used by UK companies may therefore prove useful for developing businesses.

This article concentrates on tax-advantaged employee share incentives. Some of these must be made available to all qualifying employees (all-employee schemes), while others allow the directors to select the employees to be invited to participate (discretionary schemes). In addition, each type of tax-advantaged scheme requires that the company establishing it, the shares that are used for the scheme and, in some cases, the employees themselves, must meet certain statutory criteria as set out in ITEPA 2003, Sch 2 to Sch 5.

Recent changes to the legislation governing tax-advantaged schemes have made it easier for private companies to make use of all of these schemes and have, in some cases, increased the limits on participation and the way in which gains are taxed. These changes have made these schemes more attractive than ever.

Company share option plans

Company share option plans (CSOPs) are a type of discretionary plan and enable companies to grant share options to their employees and "full time" directors (meaning those who are working at least 25 hours per week). A share option is a right to acquire a share in the company at some point in the future at a price which is set at the time of grant.

The option can also be subject to meeting performance criteria before it vests and can be exercised. The maximum value of shares (valued at the grant date of each option) that any one person

can hold under unexercised CSOP options is £30,000. Any gain on the exercise of options granted pursuant to a CSOP will be free from income tax and National Insurance contributions. On a sale of the option shares, capital gains tax may be payable on any gain over the amount paid for the shares.

As with any share option, a CSOP option is risk-free for the employee, in that there is no initial financial commitment or future obligation to exercise the option.

Save as you earn plans

These plans (SAYEs) are a type of "all-employee" plan. An SAYE plan comprises two elements:

- a savings arrangement; and
- a share option.

The grant of the option is conditional on the employee entering into a linked savings arrangement through which the employee can save between £5 and £500 per month for three or five years by a deduction from net pay. The number of shares over which the option is granted is calculated by reference to the expected proceeds of the savings arrangement at the end of the three or five-year period.

At the end of the savings period, the accumulated savings can be withdrawn and the employee can choose whether to use the proceeds to fund the exercise price of the option.

There is no income tax or NICs liability on the exercise of an SAYE option if it is exercised more than three years after the date of grant or within three years of grant due to specific "good leaver" reasons or on certain corporate events. On a sale of the option shares, capital gains tax may be payable on any gain over the amount paid for the shares although, very often, gains are well within the annual exemption and tax may not be payable.

Share incentive plans

A share incentive plan (SIP) is another all-employee share plan that provides employees with the opportunity to acquire shares (as opposed to share options). A SIP can have four features as follows.

- **Free shares.** The company can choose to award up to £3,600 worth of free shares to each eligible employee in a tax year.
- **Partnership shares.** The company may allow employees to buy partnership shares out of their pre-tax income by deduction from pay up to a maximum of £1,800 a year or 10% of pay (whichever is the lesser).



- **Matching shares.** These are additional free shares that the company can give to participants who buy partnership shares, pro rata to the number of partnership shares bought up to a maximum of two matching shares for every one partnership share.
- **Dividend shares.** The rules of the SIP can specify that dividends paid on an employee's SIP shares may either be passed straight on to the employee or reinvested in the SIP. There is no limit on reinvestment of dividends and there is no time limit on reinvestment.

Compared to option schemes, the purchase of partnership shares is riskier for employees, because they become beneficial owners of shares from the date of purchase rather than being in the more advantageous position of option holders. However, the fact that employees can purchase partnership shares from pre-tax income gives them a cushion against a certain amount of loss in value of the shares.

The legislation requires the company to establish a SIP trust to hold the these shares on behalf of participants. Awards are free of income tax and National Insurance contributions if they are held in the SIP trust for three to five years (depending on the type of shares) or if they are withdrawn from the plan early because the employee ceases employment for a "good leaver" reason. Any growth in the value of the SIP shares is sheltered from capital gains tax while the shares remain in, or are sold directly from, the SIP trust.

Enterprise management incentives

EMI plans are a type of share option plan targeted at small, higher-risk trading companies. Where the detailed statutory criteria to establish this plan is met, a company can grant unexercised EMI options over shares worth up to £250,000. EMI

plans are therefore the most generous in respect of the limits available. For an EMI option to qualify for favourable tax treatment, the grant of the option must be notified to HMRC within 92 days of the date of grant, using the form prescribed by HMRC.

There is no income tax liability on the exercise of an EMI option if the exercise price is at least equal to the market value of the underlying shares at grant. This can, and should, be agreed with HMRC in advance of the grant of the option. If the exercise price is less than the market value at grant, income tax is due on the difference between the exercise price and the market value at grant.

Shares acquired on the exercise of EMI options on or after 6 April 2012 and disposed of on or after 6 April 2013 qualify for capital gains tax entrepreneurs' relief (currently 10%) provided the individual has held the option and/or the resulting shares following the exercise of the option for a period of at least one year and the option is exercised at a time when they are an employee or director of the company. The company must also be a trading company or the holding company of a trading group at that time.

Employee shareholder status

Although not a share scheme as such, in September 2013 the government introduced a new employment status known as an "employee shareholder". Under the new employee shareholder contract an employee can be given between £2,000 and £50,000 worth of shares in the employing company in return for giving up certain statutory employment rights (the most significant being the right to bring an unfair dismissal claim and to receive a statutory redundancy payment). The employee can be one who was already employed by the company before agreeing to become an employee shareholder, or an individual who agrees to be recruited as an employee shareholder. There is a statutory procedure that must be followed for the contract to be effective.

Provided the correct procedure is adhered to, any growth in the value of the shares awarded under the employee shareholder contract is free from capital gains tax. However, it is worth noting that the introduction of employee shareholder status was controversial and the Labour Party has made a manifesto commitment to repeal this legislation if it wins the forthcoming election.

Conclusion

The cost of recruitment often means that it is more cost effective to retain existing employees who are performing well, rather than recruit new ones. However, this is difficult when there is little money available for pay rises and, increasingly, employers need to consider more creative solutions. The incentive schemes discussed above are designed to incentivise and retain employees; they also have the attraction of various tax advantages. Lots of carrot and no stick.



Michael Carter is a partner and heads the employee incentives group at Addleshaw Goddard. He has more than 20 years' experience of working with listed, private and global companies, advising on all aspects of employee remuneration with a particular emphasis on the design, drafting and implementation of share and cash incentive plans for executives and employees. Michael can be contacted by phone on 020 7880 5679 or email: michael.carter@addleshawgoddard.com.





Practical prompt payment

Late payment is a catch-22 for micro-businesses. *Chris Bryce* provides tips on how to prevent this and advice on what to do if it occurs.

TEN SECOND SUMMARY

- 1 Payment terms should be clear in the contract from the beginning to prevent late receipt.
- 2 If a client fails to pay by the agreed time, independent professionals should chase the debt through payment reminders.
- 3 If a client fails to respond to reminders, prompt action should be taken, including the possibility of taking the client to court.

Late payment is a crippling issue for micro-businesses. It is a catch-22 situation for the self-employed who not only rely on timely receipts, but who also depend on positive word-of-mouth recommendations to find work. Consequently, proprietors may believe that they are unable to chase a payment overtly because this will jeopardise future contracts. At the same time, they need a regular income to keep their business afloat.

I have spoken to many independent professionals across industry sectors who have been affected by late payment regularly, whether they are fairly new to being their own boss or have been in business for years. Taking account of the lessons learned from those professionals, and from my own experiences of late payment, I feel able to provide some tips for those – advisers and their clients – who are their own boss. The key point is to tackle the problem before it starts, but there are ways to deal with the problem if it happens.

Preventing late payment

One way to try to prevent late payment is to clearly state the payment terms in the initial contract. The payment date should be made as prominent as possible to make sure that it is seen and full payment terms should be highlighted from the beginning. In addition, micro-businesses should not agree to overly long payment terms and should outline clearly that legal remedy under the Late Payment of Commercial Debts Act will be sought if the client has not paid by the agreed time.

Micro-business owners could also provide their bank details on the contract to ensure there are no excuses from the client that they did not have these. Independent professionals could consider allowing the client to pay by milestones; for example, splitting the project into various smaller tasks and agreeing a certain amount when each task has been completed.

This would make it fairer for both parties, but the client also needs to agree to these terms.

Another option is to offer a small discount if the client pays on time or even sooner. Although this is not ideal and is a risk (because the client may have paid on time regardless of the discount), it could be another way to prevent late payment.

Building and maintaining excellent relationships with clients is also key. This is important not only because it increases the chance of winning future contracts, but it also allows clients to get to know freelancers as individuals. If a client realises that they are working with a person rather than a business, they may be more understanding.

Working through agencies could also be beneficial here. If so, it is crucial to ensure the agency is aware of payment terms. Independent professionals may also consider opting into the Conduct Regulations, which offer some protection and compel the agency to cover the payment, even if it has not been paid by the end client. However, careful consideration should be given to whether opting in or out of the regulations is the right course. Some freelancers prefer to “opt out” because this is a useful indicator of being “in business”.

If there is public sector involvement in the contractual chain, self-employed professionals may have additional rights to be paid on time and clients must be reminded of this in the contract.

Late payers

If the client does not pay by the agreed time, regular gentle reminders of the outstanding payment, for example by email, should be considered. This often works straight away because the client may have made an honest mistake. If there is still no response to the reminders, freelancers should give themselves a deadline of when to start chasing the payment, say a week after the email reminder. Here, they could remind the client of their obligations under the Late Payment of Commercial Debts (Interest) Act 1998.

Further, independent professionals could consider engaging another party, such as a virtual personal assistant, to chase payment. The use of a third party can remove the problem of risking future contracts.

Long-term late payment

After chasing the outstanding payment without receiving any response for weeks or even months, the business needs to get tough with its



clients. It is understandable that many micro-businesses are reluctant to chase late payments because this may jeopardise future contracts. However, if a client treats micro-business owners in this way it is probably better, in the long term, not to work with them again.

If chasing is not working, it is time to consider court action. However, the Small Claims Court may take a long time to resolve the matter and could be costly as well. Before taking this step, decide whether it is worth going through the lengthy, costly and often stressful experience of court action. Another option is to use a specialist firm to recover costs.

If these options do not work it may be that the worst-case scenario has occurred and the client's company may have gone into liquidation. Unfortunately, this could mean that payment is never received.

What can politicians do?

Late payment is unfair and inexcusable and politicians are attempting to tackle the problem. A survey commissioned by IPSE, the Association of Independent Professionals

and the Self Employed, through ComRes, showed overwhelming support from the public to tackle the issue. The survey, which included 1,000 "traditional" employees and self-employed professionals in the UK's most marginal constituencies, found 79% support for a strengthening of the rules to prevent this problem. And 78% of respondents supported the development of an alternative means for small businesses to settle disputes without court action.

The Conservative Party has promised to adopt IPSE's policy of a small business conciliation service if it wins the May election. This independent body would help micro-businesses settle disputes without lengthy and costly court action. The Labour Party has also promised action on this issue by allowing small businesses to name and shame the worst payers. It has also proposed giving business organisations the right to represent their members in court if they have been affected by late payment.

Although these promises should be welcomed, the late payment issue will remain until tough action is taken by government and the whole culture of payment by big business is changed.



Chris Bryce is the chief executive of IPSE, the Association of Independent Professionals and the Self Employed. With more than 20 years' as an IT contractor, Chris is responsible for making sure that the UK's micro-businesses are given the support they need from decision-makers. IPSE also provides a wide range of support services to help its members succeed in business, including tax and legal helplines, IR35 support, and compensation for illness/injury. For more information about IPSE, visit www.ipse.co.uk.



Sharing solutions

Practical hints and tips on accountancy, tax and general business matters.

EIS DIVIDENDS

"Financial framework" (January/February 2015, page 14) mentioned the tax relief available for investors in venture capital trusts (VCTs) and enterprise investment schemes (EIS) and that dividends are free of tax.

Note that the income tax exemption for dividends only applies to VCTs (under ITTOIA 2005, s 709) and does *not* apply to qualifying EIS investments.

*Richard Curtis,
Editor, Financial Accountant.*



PURSUING A DEBT

Some creditors are owed money, but the debtor (which could be an individual or a company) refuses to pay them. In many circumstances the creditor is sure that the debtor does have the money and/or other assets to be able to pay them. If the debtor is not already in bankruptcy or liquidation, and they are owed £750 or more, the creditor may be able to have them formally put into bankruptcy or liquidation.

In these legally appointed positions, the liquidator would have the full weight of the law behind them to make rigorous investigations into the affairs of the debtor – including looking for any hidden assets they may have.

A bankrupt or the director of a company in compulsory liquidation has a legal duty to co-operate with their trustee in bankruptcy or liquidator; they are compelled to do so by court order. If the debtor fails to comply, they are in contempt of court and this can be punishable by imprisonment.

*John Bell,
Clarke Bell Insolvency Practitioners.*



TELEPHONE SCAMS

Read forms and faxes, including the small print, right through to the end before signing them.

Businesses may receive phone calls selling one thing or the other and very attractive quotes may be made. A common example is an offer to include the firm in a worldwide directory for free. This seems to be all above board, but the offer is then extended to inclusion on the directory website. Agreement to this will result in a charge which is shown in small print at the foot of the confirming email.

The email is followed by an invoice – again, this is not mentioned during the phone call offer – which is soon pursued by the supplier.

To avoid this charge, the matter may be taken up with the Office of Trading Standards. Action Fraud, the UK's national reporting centre for fraud and internet crime, maintain a register of scams at www.lexisurl.com/dirfraud.

The Action Fraud website is at: www.actionfraud.police.uk.

*Zeeshan Rizvi FFA, FFTA,
North & West Yorkshire branch chair.*



PENSIONS REGULATOR CAMPAIGN

Pension savers are being urged to "scamproof their savings" as part of a campaign by the Pensions Regulator ahead of forthcoming changes to the law.

To date, under-55s have been the primary target for scammers promising to release their pensions as loans or upfront cash. But, from April 2015, new flexibilities will give people aged over 55 more freedom on how they access their pension pots.





The Pensions Regulator has refreshed its Scorpion campaign, produced in partnership with regulators and government partners, to alert retirement savers and pension scheme trustees to the risks. It offers advice for savers on how to spot a scam and what to do if they have been contacted by a suspect organisation.

Scorpion also provides guidance for pension scheme trustees, including a check list of scam hallmarks, and signposts to a new code of good practice that sets out due diligence processes to combat pension scams. It calls on trustees to encourage members to contact Pension Wise, the new government service aimed at helping those approaching 55 to understand their options.

The Pensions Regulator's chief executive, Lesley Titcomb, said: "Consumers can help to scamproof their savings by using our new Scorpion campaign material, talking to the Pension Wise service or consulting an FCA-regulated financial adviser before making an irreversible decision."

The ability for individuals to access their pension pots flexibly at 55, subject to their marginal tax rate, may result in some being less tempted by scams because they will be able to transfer funds into legitimate drawdown products.

As well as using Pension Wise, savers should check that their adviser is registered with the FCA. Its "Scamsmart" list also names the investment schemes that are known cons.

They can also telephone The Pensions Advisory Service on 0300 123 1047 or, if they have already accepted an offer, they can report it to Action Fraud or call 0300 123 2040.

*Allison Plager,
Financial Journalist.*

TAX TREATMENT OF DAMAGES

The tax treatment of damages should be considered at an early stage because this may need to be factored into the amount claimed. Tax also needs to be considered in settlement negotiations to ensure the offer is enough.



The first issue affecting the tax treatment is whether the damages are income or capital in nature for the recipient. The distinction is complex; however, the general rule is that if the damages are to compensate for a loss of income, then the damages are themselves of an income nature and are therefore taxed as income. However, where the compensation for loss of income relates to the whole structure of the recipient's trade, it is capital. Where the payment relates to a capital asset (such as a property or shares), it will usually be capital in nature.

If the damages are income in nature they will only be taxable if they fall within one of the categories of taxable income such as receipts of a trade or profession, receipts from a property business, savings income or employment income. There are also some exemptions that are more relevant to individuals, such as personal injury damages.

An example of a trading receipt is debt recovery where goods have been sold or services supplied – although in this case the trading receipt will usually have arisen by reference to when the sale took place and not when payment was made. Damages from a loss of profits claim will usually also be trading receipts.

Where the damages are capital rather than income in nature the tax position is principally governed by extra-statutory concession D33. Where the damages relate to an underlying capital asset the claimant is taxed as if it has sold part of the asset. However, where there is no underlying asset the damages can be tax exempt.

A good example of a claim with no underlying asset would be a professional indemnity claim for misleading tax or financial advice. In contrast, negligent advice on the sale of a property would relate to the "underlying asset" of the property.

The tax exempt treatment where there is no underlying asset is being whittled away by HMRC. In January 2014, HMRC amended ESC D33 to limit the exemption to £500,000. While relief can be granted for awards in excess of this £500,000 threshold, it must be claimed from HMRC and, in the case of corporates, is unlikely to succeed. The claim can only be made once the size of the payment is known, which may be too late to influence the quantification of the claim or negotiation of the settlement.

Further, HMRC have been consulting again on making further restrictions as part of a review of extra statutory concessions and incorporating them into legislation. The consultation period is now closed and the outcome of the consultation is not yet known, but if the current proposals are enacted, they will lead to a straight £1m limit with any excess amount being taxable.

A flowchart on this subject can be found at: www.lexisurl.com/damagexstax.

It is difficult to define in isolation the types of claim that are affected by these changes. However, they are a useful reminder to check the tax position at an early stage. The VAT position may also need to be considered.

*Ian Hyde,
Pinsent Masons.*

PROFESSIONAL INDEMNITY PROBLEMS

Many accountants have taken the opportunity to offer "tax products" for their clients to save tax. Unfortunately, in many cases these schemes have subsequently failed and there has been an issue with the adviser's professional indemnity insurance. The insurer may not wish to take on the potential risk that can be faced by practices that have undertaken such work.

This issue clearly needs to be addressed when the time comes to renew the insurance policy.

*Ron Goldsmith,
Goldsmiths Practice Services LLP.*



Sharing solutions

Financial Accountant magazine welcomes practical hints and tips from IFA and FTA members. These may relate to accountancy, tax or general business matters.

Please send your contributions to
richard.curtis@lexisnexis.co.uk



Crossing the threshold

The audit threshold for charity accounts is being increased and IFA members will soon be eligible to carry out independent examinations of audit exempt charities, explains *Anne Davis*.

TEN SECOND SUMMARY

- 1 Representations by the IFA to the government and the Charity Commission result in approval for examinations of audit exempt charities.
- 2 Charities will only have accounts compulsorily audited if their income exceeds £1m.
- 3 The rule changes for IFA members will only apply to England and Wales although representations will be made in respect of Scotland and Northern Ireland at a later date.

In November 2014, the IFA approached the Cabinet Office and the Charity Commission in England and Wales to request that full members of the IFA (associate members (AFA) and fellows (FFA)) should be eligible to carry out independent examinations of audit exempt charities. As part of the submission, we had to demonstrate that the IFA and its members met the criteria set out in the subsequent Cabinet Office consultation. These related to regulations and professional standards, competency, training and development, continuing professional development (CPD), disciplinary matters and a register of members.

In December 2014, the Cabinet Office consulted on raising the charity audit exemption thresholds and extending the list of accountancy membership bodies able to carry out independent examinations for audit exempt charities. Our response to this consultation is available at on the IFA website (www.ifa.org.uk). See the website links in **Further Information**.

As a little background, the government consultation (*Charity Audit and Independent Examination*) followed a report by Lord Hodgson of Astley Abbotts on the operation of the Charities Act 2006, *Trusted and Independent: Giving charity back to charities*. This recommended that charities should only have their accounts compulsorily audited if their income was more than £1m, with no asset threshold. The consultation quoted the comments of Lord Hodgson.

"A full audit is an expensive and time-consuming exercise and, although it is right that

large organisations should submit to this level of scrutiny in the interests of good regulation and management, the current threshold of £500,000 income per year seems a low level at which to impose this requirement. A level of £1 million draws a better balance. On similar lines, the existing 'asset test' that requires organisations with assets worth £3,260,000 to undergo an audit was criticised by some as unnecessary and hard to apply in practice. This is an additional element of complexity that should be removed."

The government partially accepted this recommendation. Subject to consultation, it was minded to increase the income threshold but to retain an increased asset threshold. However, because the £3.26m asset threshold was shared by companies it was reluctant to create a discrepancy.

Change is on its way

In February 2015, the government published its response to the Cabinet Office consultation (see www.lexisurl.com/ifa-ch24). This makes the following points.

The IFA will be added to the list of those professional accountancy membership bodies





that can carry out independent examinations of audit exempt charities.

The government is satisfied that members of the IFA are sufficiently competent to carry out professional independent examinations of charity accounts where the charity's income is more than £250,000 and that the IFA, as a professional body, meets the criteria for inclusion in the Charities Act 2011. The IFA is the only professional body that will be added to the list whose members can carry out professional independent examinations in the act. The Certified Public Accounts Association (CPAA) may be added subject to receipt of additional information by the Cabinet Office.

There is no plan to increase the threshold for "lay" independent examinations because it does not believe that this provides sufficient scrutiny for charities with an income of more than £250,000.

I hope all will agree that the addition of the IFA to the list of professional bodies whose members can carry out independent examinations of audit exempt charities is excellent news for the IFA and its members wishing to provide these services.

In addition, the government will:

- increase the income threshold at which an audit is needed for charities from £500,000 to £1m;
- increase the aggregate group income threshold at which parent charities should have group accounts audited from £500,000 to £1m; and
- increase the preparation threshold for group accounts from £500,000 to £1m.

However, there will be no change to the asset threshold for audit exemption for charities due to the limitations of secondary legislation. The government response states that, after the consultation was issued, it realised that the asset thresholds cannot be changed through secondary legislation without also inadvertently changing the threshold below which charities can choose to prepare accounts on either a receipts and payments or accruals basis. This is something that the government does not wish to change. The government hopes to revisit this point if an opportunity arises in the future.

Because charity law is devolved in the UK, the above changes apply to England and Wales only. Different charity audit exemption thresholds will continue to apply in Scotland and Northern Ireland for the time being.

The changes will be made by statutory instrument during this Parliament and will take effect for financial years ending on or after 31 March 2015.

The practical effect

So, what are the practical implications of these changes?

Full members of the IFA, AFAs and FFAs, will be able to conduct independent examinations of charities in England and Wales that have income of up to £1m (subject to the asset test threshold referred to above) for financial reporting periods ending on or after 31 March 2015. However, as intimated above, because of the devolution of UK charity law, IFA members in Scotland and Northern Ireland will not benefit from these changes and the previous restrictions apply in these jurisdictions. That said, we will be looking at contacting the regulators and the government in Scotland and Northern Ireland to explore whether there are any plans to change charity law in their jurisdictions.

Members who work or volunteer as a trustee or treasurer for a charity and whose accounting year end is on or after 31 March 2015, will be able to apply the new charity audit exemption thresholds and need to consider whether to have an audit or an independent examination. To help in this decision, the government has asked the Charity Commission to consider highlighting the differing assurance aspects between an audit and an independent examination.

It should be noted that charities which operate in England and Wales and different parts of the UK must still comply with the charity law in these jurisdictions. A response from the Office of the Scottish Charity Regulator (OSCR) indicated that it believes that about 100 charities are registered in both Scotland and England and Wales with an income of £500,000 to £1m. These charities will still require an audit if their income is above £500,000 to comply with the Scottish charity law requirements.

Thank you

Finally, I would like to take this opportunity to thank Institute members for their support in our submission. I know that a number of members wrote directly to the Cabinet Office on this matter and this is evident in the government's response. This states that nine of the 16 responses received were in support of the IFA's application to become an approved body for professional independent examinations. So the support of our members is very much appreciated. This is excellent news for the IFA and its members.

FURTHER INFORMATION

Cabinet Office consultation:
www.lexisurl.com/ifa-ch22

IFA response:
www.lexisurl.com/ifa-ch23

The government response:
www.lexisurl.com/ifa-ch24

The Charities Act 2011
(Accounts and Audit) Order
2015:
www.lexisurl.com/ifa-ch25



Anne Davis is head of regulation and policy at the IFA. She is also an independent consultant specialising in financial ethics and the governance of not-for-profit organisations. Previously, she worked at the ICAEW as integrity and ethics manager and as head of charities and the voluntary sector. Anne trained with Coopers & Lybrand and has held financial and management roles with the National Provincial Building Society (now part of Santander), Whitbread and General Motors Asset Management. She is also a treasurer for the charity Carers' Trust Cambridgeshire. Anne can be contacted by email: AnneD@ifa.org.uk



Increasing influence

Adam Lizzimore supplies details of forthcoming branch meetings.

Following our amalgamation with the IPA, the IFA is now part of the world's largest SME/SMP-focused accountancy group. As a result, the importance, strength and consistency of the Institute's local branch network has become even more relevant. The network provides meetings for members run by members and are an excellent opportunity for those in the accounting and finance sectors to stay up to date on topical matters and news from the IFA.

Greater influence

All IFA branch meetings are free to attend and are an opportunity for our members, as trusted business advisers, to introduce their high calibre accountancy connections to the IFA. Members' support of their local IFA branch is of paramount importance. It enables us to further increase our credibility and standing as well as our capacity to influence global accounting standards setters, national regulators, government bodies and lenders to better understand and recognise the needs of the micro and small-to-medium business sector.

Members who would like further information about their local branch organisation should contact marketing@ifa.org.uk.

Save the date

On the 13 and 14 May 2015, 3,000 accountancy professionals will be congregating under one roof (ExCeL London) for Accountex 2015. As in previous years, the IFA will be exhibiting and will also be providing a presentation in the practice growth theatre from Mujibur Rahman, the IFA's south-west midlands branch chair. Free tickets can be ordered at www.ifa.org.uk/event/2946/accountex-2015/.

More meeting dates

Note the following additional branch meetings.

- 9 April 2015 (2.00pm to 5.00pm):
North West Midlands Branch
- 14 April 2015 (6.00pm to 9.00pm):
West of England & South Wales Branch
- 21 April 2015 (7.15pm to 9.15pm):
East & South Yorkshire Branch

For more information on all IFA branch meetings visit: www.ifa.org.uk/events/branch-events/

WED, 22ND APRIL 2015 (5:00PM – 8:00PM)

Scotland Branch

Auto-enrolment and Vital VAT
Glasgow Caledonian University,
Cowcaddens Road, Britannia Building, Glasgow G4 0BA
Confirm attendance at: www.lexisurl.com/Scot111

FRI, 24TH APRIL 2015 (2:00PM – 5:00PM)

Northern Ireland Branch

Social media and marketing for accountants: **Bill McCartney**
Current key VAT issues: **Nick Ryan** of The VAT Practice
Dunsilly Hotel,
20 Dunsilly Road, Ballymena, Antrim BT41 2JH
Confirm attendance at: www.lexisurl.com/NI111

TUE, 14TH APRIL 2015 (7:30PM – 9:30PM)

Merseyside, Cheshire & North Wales Branch

VAT and accountants in practice: **ECA Vat Advisors Ltd**
Holiday Inn,
Lime Street, Liverpool, Merseyside L1 1NQ
Confirm attendance at: www.lexisurl.com/Mer111

TUE, 12TH MAY 2015 (7:30PM – 9:30PM)

Merseyside, Cheshire & North Wales Branch

Small companies and director's duties: **Rooney & Associates**
Holiday Inn,
Lime Street, Liverpool, Merseyside L1 1NQ
Confirm attendance at: www.lexisurl.com/Mer112

THU, 23RD APRIL 2015 (6:00PM – 9:00PM)

South West Midlands Branch Meeting

Capital allowances: **Dave Gibson** of Veritas Advisory
Auto-enrolment: **Nick Johal** of Bright Wealth
Holiday Inn Express Redditch,
2 Hewell Road, Enfield, Redditch B97 6AE
Confirm attendance at: www.lexisurl.com/SWM111

WED, 20TH MAY 2015 (6:00PM – 9:00PM)

East Midlands Branch

2015 Budget update and anti-money laundering
Stoney Croft Hotel,
Elmfield Avenue, Leicester LE2 1RB
Confirm attendance at: www.lexisurl.com/EM111

WED, 8TH APRIL 2015 (5:00PM – 8:30PM)

Devon & Cornwall Branch

Your idea, your business, our support: **Gary Townley** of the Intellectual Property Office. Topical tax update: **Paul Howard** of Gabelle
Plymouth Albion Rugby Club,
Brickfields Recreation Ground, 25 Damerel Close, Plymouth PL1 4NE
Confirm attendance at: www.lexisurl.com/Dev111



THU, 2ND APRIL 2015 (7:00PM - 9:00PM)

Northern Counties Branch

A review of the Budget
UNW LLP Chartered Accountants
Confirm attendance at: www.lexisurl.com/nc111

TUE, 12TH MAY 2015 (7:00PM - 9:00PM)

Northern Counties Branch

Programme and date to be confirmed
UNW LLP Chartered Accountants,
1st Floor, Citygate, St James Boulevard, Newcastle upon Tyne NE1 4JE
Confirm attendance at: www.lexisurl.com/NC112

THU, 16TH APRIL 2015 (7:30PM - 9:30PM)

North & West Yorkshire Branch

Budget update
Weetwood Hall Conference Centre and Hotel,
Otley Road, Leeds LS16 5PS
Confirm attendance at: www.lexisurl.com/NWY111

THU, 21ST MAY 2015 (7:30PM - 9:30PM)

North & West Yorkshire Branch

Cloud-based accounting
Weetwood Hall Conference Centre and Hotel,
Otley Road, Leeds LS16 5PS
Confirm attendance at: www.lexisurl.com/NWY112

WED, 15TH APRIL 2015 (6:00PM - 9:00PM)

Northants, Beds & Herts

The merger and acquisition of accountancy practices:
Ron Goldsmith of Goldsmiths Practice Services LLP
How to spot insolvency warning signs:
Gemma Tilley of FA Simms & Partners
Holiday Inn,
500 Saxon Gate, Milton Keynes MK9 2HQ
Confirm attendance at: www.lexisurl.com/nbh111

MON, 27TH APRIL 2015 (5:30PM - 9:00PM)

East Anglia Branch

Programme and date to be confirmed
The Stoke-by-Nayland Hotel,
Leavenheath, Colchester, Essex CO6 4PZ
Confirm attendance at: www.lexisurl.com/Ess112

MON, 13TH APRIL 2015 (6:00PM - 9:00PM)

Essex Branch

Budget 2015 and auto-enrolment
Jupiter House,
Warley Hill Business Park, The Drive, Brentwood CM13 3BE
Confirm attendance at: www.lexisurl.com/Ess111

TUE, 14TH APRIL 2015 (6:00PM - 9:00PM)

London Branch

Anti-money laundering, Budget and pensions auto-enrolment
The Wesley, 81-103 Euston Street NW1 2EZ
Confirm attendance at: www.lexisurl.com/Lon111

WED, 20TH MAY 2015 (4:00PM - 9:00PM)

Hampshire & Dorset Branch

Programme and date to be confirmed
Marwell Hotel,
Ashstead Suite, Thompson Lane, Colden Common, Winchester SO21 1JY
Confirm attendance at: www.lexisurl.com/HD11

TUE, 21ST APRIL 2015 (6:00PM - 9:00PM)

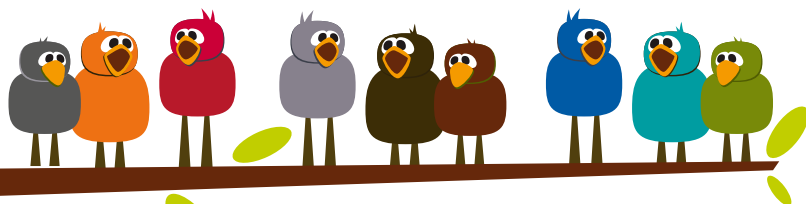
Sussex Branch

Programme and date to be confirmed
Hollingbury Golf Club,
Ditchling Road, Brighton BN1 7HS
Confirm attendance at: www.lexisurl.com/Sus111



A spring in the step

Adam Lizzimore highlights some of the training opportunities available at local branch meetings.



Albert Whiting

TEN SECOND SUMMARY

- 1 Training to be provided for independent examinations of charities.
- 2 Pensions auto-enrolment is becoming increasingly important for small and micro-businesses.
- 3 New business partners will be outlining their services to IFA and FTA members at local meetings.

As we sail into spring, IFA 2015 local branch meetings are picking up pace, with new topics, new speakers and new partners. Having seen record attendances in Essex and London already this year, the IFA branch network looks in great shape to grow even stronger before the IFA centenary in 2016. Here are some exciting updates.

Charity accounts training

Following the IFA's recent submission to the Cabinet Office in November 2014, full members of the IFA (associate and fellow) are now eligible to undertake independent examinations for charities in England and Wales with income above £250,000 under the Charities Act 2011, s 145.

To ensure that members are up to speed with the requirements to carry out this variety of work, the IFA will be providing members with guidance and training for charity accounts work at future local branch meetings.

As we seek to meet our members' requirements in this area, we would like to establish the training needs on the following aspects of charities:

- accounting and reporting;
- tax;
- governance; and
- independent examinations.

Please send your thoughts to marketing@ifa.org.uk.

IPA/IFA amalgamation update

In line with the overwhelming support (96% of votes) from the IFA membership for amalgamation

with the Institute of Public Accountants (IPA) of Australia, update sessions will take place throughout the IFA local branch network during 2015.

Hot topics

With IFA anti-money laundering compliance monitoring visits continuing throughout 2015, AMLCC will be providing learning sessions at local branch meetings all over the country.

Data from the Pensions Regulator tells us that at least one million small and micro-employers will need to implement an auto-enrolment compliant pension scheme. To ensure that members stay up to date, auto-enrolment will continue to be discussed at IFA local branch meetings and information can be found on the IFA website at www.ifa.org.uk/members/new-members/auto-enrolment/.

New topics, more member benefits

Since the start of the year, the IFA has increased the number of benefits to the membership. Recent additions include:

- Net Lawman, providers of template legal documents as an alternative to using a solicitor;
- Ascarii, which provides a complete cloud-based business management package for SMEs; and
- Quidcycle, providers of a borrower and lender platform, enabling members to achieve financial success.

IFA local branches will be discussing some of these areas as new topics during 2015. To learn more, please visit the IFA website to find the next local branch meeting.

Congratulations

Mr Albert Whiting, a retired fellow member of the IFA, who has dedicated his life to charity work, has been awarded an MBE for his services to the community. Mr Whiting was first honoured in 1994 when he received the highest award to an individual from Rotary International in India for his long-term work supporting the poor and disadvantaged in the subcontinent. He was also a founding trustee of Sunderland Sports Fund, a charitable trust fund that provides financial aid for talented young sports people and disabled people. In addition, Mr Whiting has supported the Angels of the North charity to help thousands of disadvantaged families in the North of England.

The IFA would like to congratulate Mr Whiting for all his dedicated hard work and on receiving an MBE. It is an honour to have him as a long-standing member of the Institute.



Adam Lizzimore is the marketing and communications executive of the IFA. As part of his role, he coordinates the activities agreed with local branch chairs to support branch activities, including the promotion of local events and website content. He can be contacted by phone on 01732 467131 or email: adaml@ifa.org.uk



A new standard

It's all go for small companies, says *Glynis Morris* as she outlines forthcoming changes to their accounting regime.



TEN SECOND SUMMARY

- 1 The new Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 will implement changes required by the EU Accounting Directive.
- 2 The small company and small group thresholds will be increased to the maximum permitted under the directive.
- 3 A true and fair view is required and consideration must be given to whether any additional disclosures should be made in the financial statements.

Major changes are under way for small company accounting in the UK. The new EU Accounting Directive sets out a specific financial reporting regime for small companies and prohibits national regulators from imposing additional disclosure requirements. The directive will also have an impact on larger businesses, but generally to a lesser extent. This article focuses on the changes for small companies and micro-entities.

The Department for Business, Innovation and Skills (BIS) issued an initial consultation document on the company law changes in August 2014, and has now issued a feedback paper and draft regulations. Alongside that consultation, the Financial Reporting Council (FRC) issued its own proposals for a new UK financial reporting framework for smaller entities and has now published consultation drafts of the new and revised standards.

Company law changes

The company law changes will be implemented through the Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 and will apply for accounting periods beginning on or after 1 January 2016.

In most cases, the regulations also allow adoption for periods beginning on or after 1 January 2015 if this would mean that a company could comply with less burdensome reporting requirements, but they will not allow the higher thresholds to be used to claim audit exemption for an earlier period.

Company size will still be measured in terms of balance sheet total, turnover and number of employees. The qualifying criteria for a micro-

entity are unchanged and there are no changes to the micro-entity regime except that, under new CA 2006, s 415(1A), such businesses will no longer have to prepare an annual directors' report.

The small company and small group thresholds will be increased to the maximum permitted under the directive, as shown in **Thresholds**.

There will also be changes to the eligibility requirements.

Disclosures and details

The directive specifies eight disclosures that must be given in the notes to the financial statements of a small company and then sets out five further disclosures that EU member states have the option to require. BIS intends to require all of these disclosures on the basis that many companies would, in any case, need to provide them for the financial statements to show a true and fair view.

BIS has also concluded that there should be more flexibility over the level of detail provided to shareholders. As a result, the department plans to take up the option for small companies to present more limited information, but only where all members of the company consent. The draft regulations implement this by amending CA 2006, s 444 to:

- allow an eligible small company to prepare abridged accounts under a new paragraph 1A of Sch 1 to The Small Companies and Groups (Accounts and Directors' Report) Regulations (SI 2008/409);
- remove the option to prepare abbreviated accounts for filing purposes, so that all companies must file the accounts presented to the members; and

THRESHOLDS

The thresholds below which a company or group will be considered to be small will be increased to the following.

	Small company	Small group
Balance sheet total not more than	£5.1m	£5.1m net (or £6.1m gross)
Turnover not more than	£10.2m	£10.2m net (or £12.2m gross)
Average number of employees not more than	50	50

**FURTHER INFORMATION**

The Small Companies and Groups (Accounts and Directors' Report) Regulations SI 2008/409: www.lexisurl.com/SI2008409

The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (Draft): www.lexisurl.com/CPGdraft

- require the directors of a small company that prepares and files abridged accounts to deliver a statement confirming that all members have consented to the abridgement.

If the accounts are subject to audit, but the company does not file the profit and loss account, the notes to the balance sheet will have to give certain disclosures about the auditor's report. If both the profit and loss account and balance sheet are filed, the auditor's report must also be filed.

Audit exemption

The financial thresholds for small company audit exemption are linked directly with those for the small companies accounting regime. In its initial consultation paper BIS indicated that the audit exemption thresholds would not be increased, but it raised the issue again in its December 2014 discussion paper on the UK impact of the EU Audit Directive. In that paper, views were sought on whether the audit exemption thresholds should be amended or remain at the same level.

The current intention is to retain the link with the small company thresholds, so that the audit exemption thresholds will automatically increase in line with those for small companies for periods beginning on or after 1 January 2016. BIS is still considering responses to the Audit Directive consultation, but now states a clear preference for the same thresholds to apply for both the accounting and audit exemption regimes.

Again, there will also be changes to the eligibility provisions.

New FRC framework

Under the new UK financial reporting framework for smaller entities:

- a company that qualifies as a micro-entity will be able to apply a new Financial Reporting Standard applicable to the Micro-entities Regime (currently in issue as draft FRS 105); and
- the Financial Reporting Standard for Smaller Entities (FRSSE) will be withdrawn and FRS 102, the Financial Reporting Standard Applicable in the UK and Republic of Ireland, will be amended to include a new section 1A setting out presentation and disclosure requirements for small entities, based on the new company law provisions.

The FRC has also made clear that it would not have proposed such a significant reduction in financial reporting disclosures for small companies had it not been imposed by the EU.

All entities will continue to have the option of applying more comprehensive requirements (for instance, a micro-entity will be able choose between the FRS 105, the small companies regime within FRS 102, FRS 102 in full or EU-adopted IFRS). The FRC changes will also apply for periods beginning on or after 1 January 2016 with earlier adoption permitted.

Micro-entities

The proposed FRS 105 is currently set out in FRED 58). It has been developed from the recognition and measurement requirements of FRS 102, but adapted for the micro-entity regime and with some additional simplifications, including the following points.

- There is no requirement to account for deferred tax or equity-settled share-based payments.
- Defined benefit pension plans are accounted for in the same way as defined contribution plans, with a requirement to recognise a liability for contributions payable as a result of any agreement to fund a deficit in the plan.
- There is no option to capitalise borrowing or development costs.
- Issues that are unlikely to be applicable to micro-entities are omitted from FRS 105, although there are cross-references to the FRS 102 requirements in some areas.

As under the FRSSE, FRS 105 will apply only to micro-entities that are companies. Accounts that comply with the minimum legal requirements for a micro-entity are deemed to give a true and fair view so there is no requirement to consider whether additional information needs to be provided to achieve this. However, the FRC emphasises that additional details can be provided voluntarily.

Other small entities

FRED 59 sets out proposed amendments to FRS 102 to cater specifically for small entities. They will have separate disclosure and presentation requirements, but will apply the same recognition and measurement requirements as other entities. Those affected will need to consider the potential impact of certain differences between FRS 102 and FRSSE, including:


- the use of fair value accounting, which will change the treatment of certain financial instruments;
- the need to recognise deferred tax on revalued fixed assets;
- the need to recognise holiday pay accruals; and
- the need to recognise changes in the fair value of investment property in profit or loss.

Small company accounts must still show a true and fair view and directors will have to consider whether the financial statements need to give any additional disclosures necessary to achieve this.

At present, compliance with the disclosure requirements of the FRSSE will usually be sufficient to achieve a true and fair view. The proposed section 1A of FRS 102 encourages smaller entities to make a small number of additional disclosures voluntarily. These include a statement of compliance with the standard and any relevant going concern disclosures.



Glynis D Morris BA FCA trained with KPMG and spent 20 years with the firm, working with a wide range of clients in the business, charity and education sectors, as well as spending three years as a senior member of the firm's technical department. She became a partner in January 1991, then left to set up her own practice in 1996. She now devotes most of her time to writing on current professional issues. She is the author of *Tolley's Manual of Accounting*, edits *Butterworth's Financial Reporting and Accounting Service*, contributes to a number of company law publications and writes regularly for professional newsletters and magazines.



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